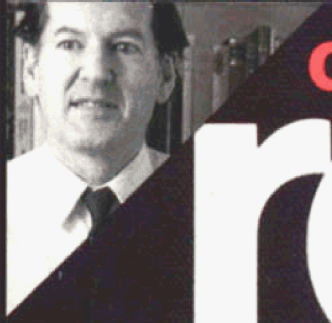

George Gilder on Importphobia

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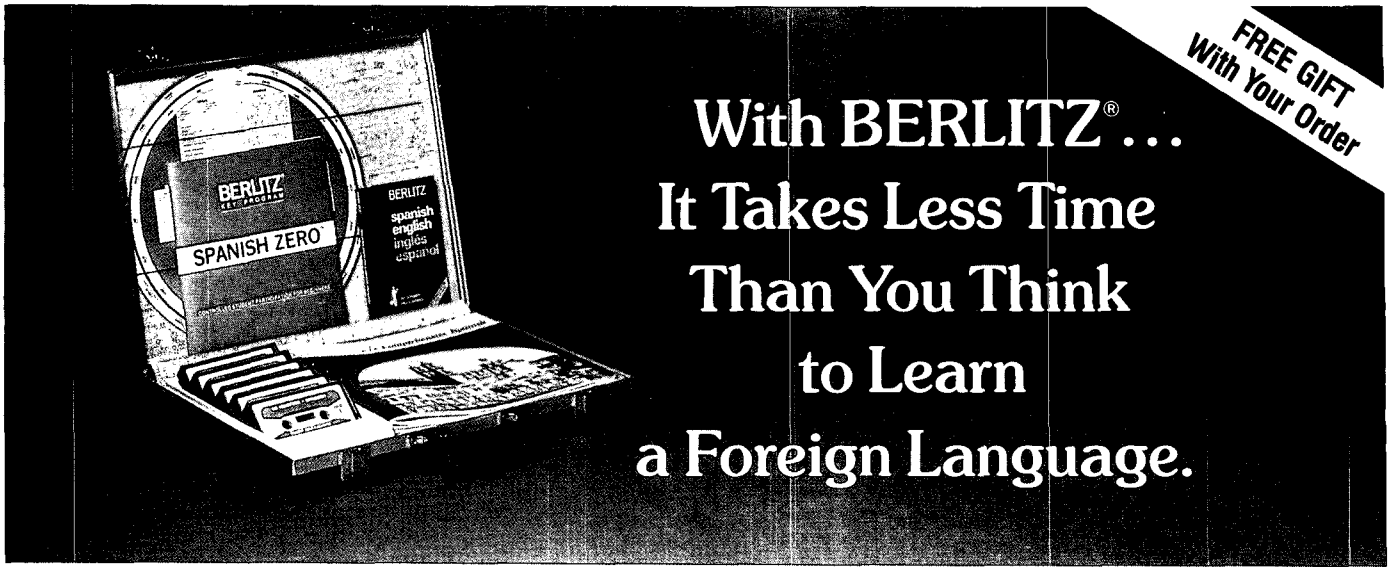

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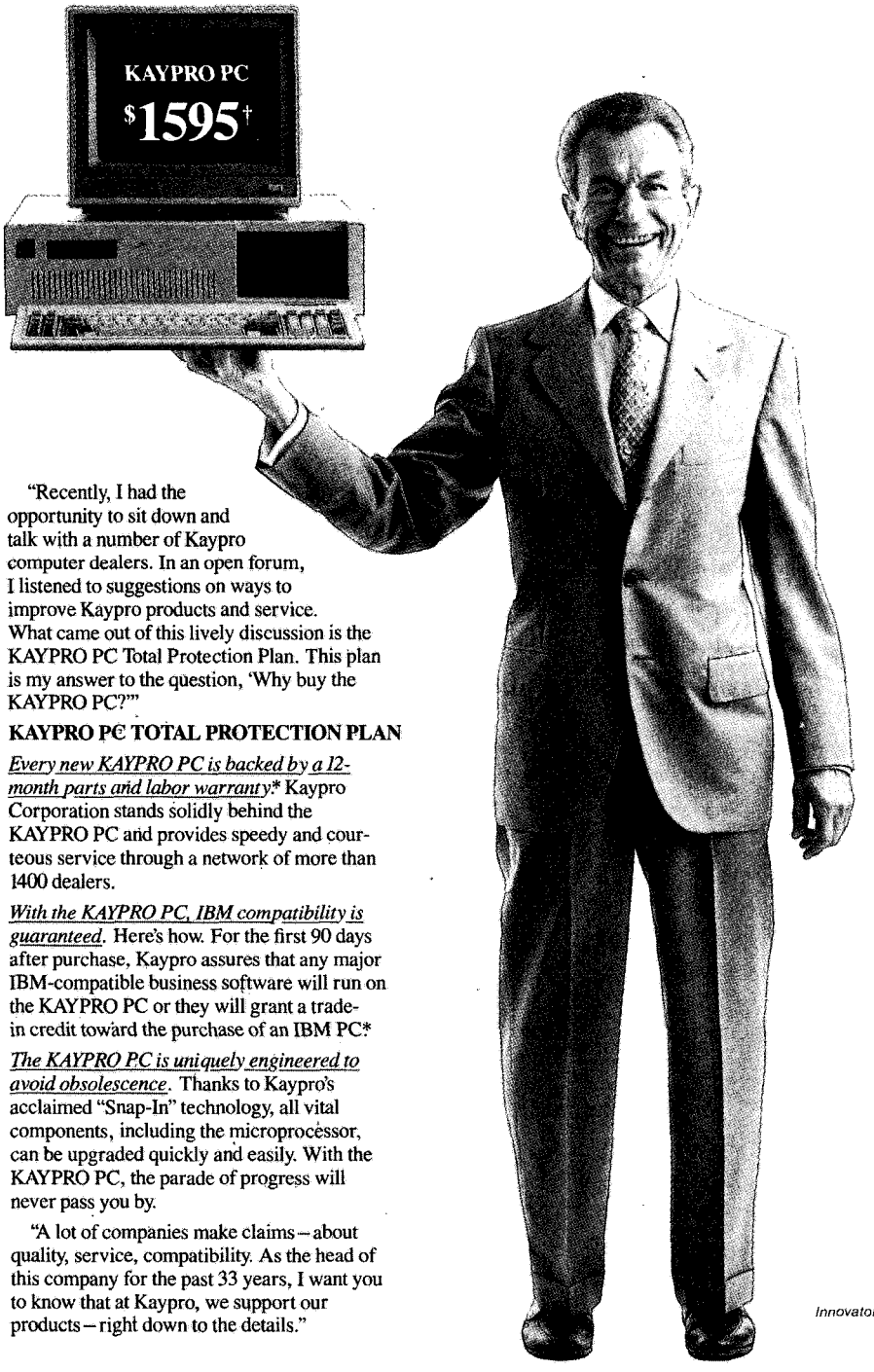

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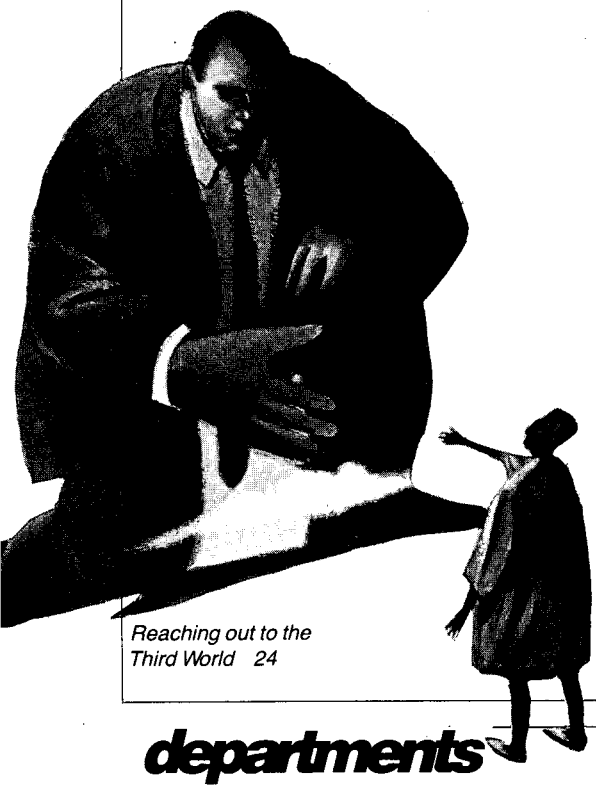

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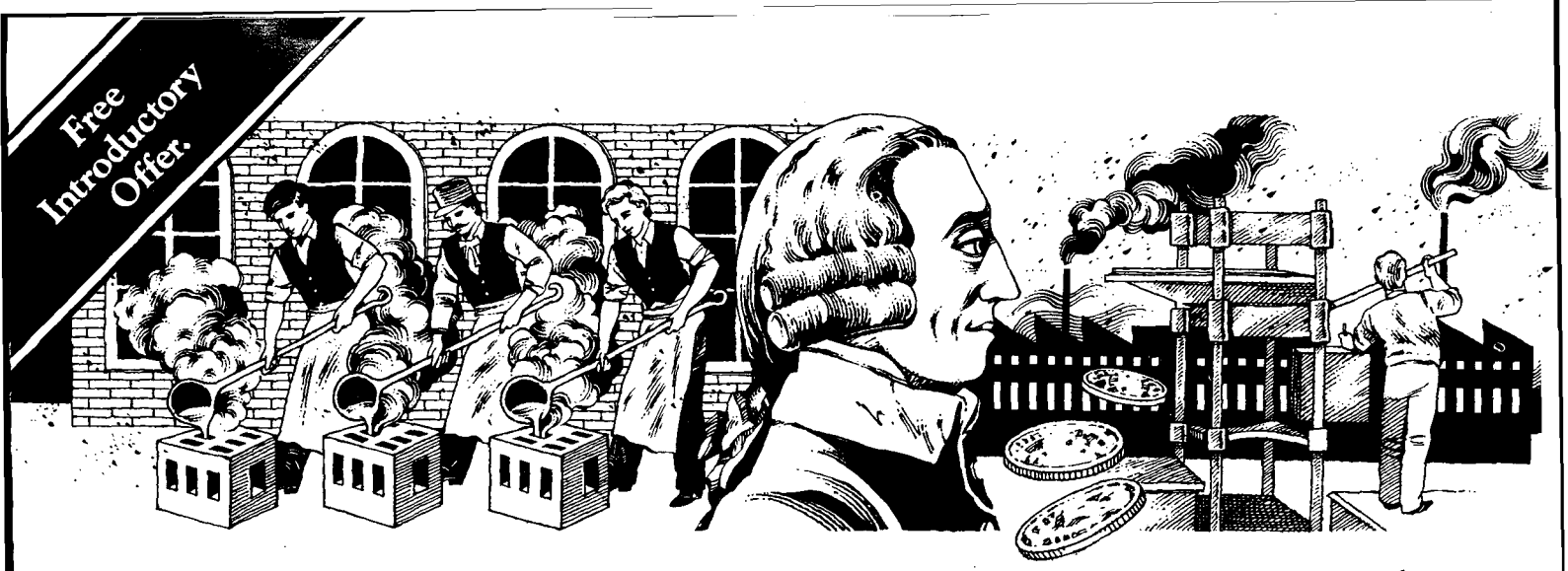

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upfront

In the Belly of the Beast

I once lived in Washington, D.C., and worked for a prominent Democratic politician. It was great fun for a couple of years, till I had a falling out with the state. But thanks to my James Dean-influenced youth, I had always been uneasy having the status of an "insider." Speculation over whether Congress could "pass the continuing 'res' before recess" bored me senseless, and hearing suppliant lobbyists whisper knowingly over tiny portions of fish about "key players" (a term used only by non-key players) drove me into reveries the contents of which are best not revealed in this family publication.

Now I have returned to this place to man a Washington office of a magazine that takes the radically American position that each individual possesses certain inalienable rights, among them the rights to life, liberty, and the pursuit of happiness, and that any government that interferes with these rights is to be subjected to the severest criticism. That, as you might guess, leaves me an outsider here.

But that's where all the fun is. One of REASON's strengths is that we are beholden to no party or power-brokers. If a guy is a crook or a moron, we call him a crook or a moron. This sort of feisty, dukes-up journalism is disappearing in the sea of Establishment media mush (ever listen to a John Chancellor TV commentary?); we hope that our expanded East Coast presence will help revive it.

"Watch the faces of families touring Washington," instructs conservative columnist George Will, who sees in the visitors' eyes a rebuke to those of us who have a "crabbed and dispiriting attitude toward the central government." Better yet, George, take a look at the typical tourist itinerary. For if citizens come to D.C. to pay homage to strong government, they choose peculiar venues for worship.

The two political landmarks topping every visitor's list are the Capitol and the White House. The regal pretensions of recent occupants notwithstanding, these buildings are venerated because they represent the noble 18th-century dream of our forefathers: that in a republic of self-governing freemen, the power resides in the people.

C. NARVAEZ

Next our tourist will visit the Smithsonian museums, which constitute an extravagant tribute to the ingenuity of the American breed. He'll probably stop by the memorials to presidents Washington, Jefferson, and Lincoln, demigods who in American mythology have assumed the righteous characters of Independence, Liberty, and Brotherhood.

Finally, at the end of the Mall, our friend may walk reverently past the Vietnam Wall, perhaps searching for the name of a neighbor or a relative who was killed thousands of miles from his home. The Wall is stark, simple, and beautiful. It commands respectful silence and achieves an admirable effect: it honors the brave men who died in Vietnam, but it does not honor the government that sent them to the slaughter.

Of course, the symbols of the American ideal are far outnumbered by the bricks and mortar embodiments of the modern American state. For every Jefferson Memorial, there are 50 obscure government agencies where decent and well-meaning men and women are employed to waste our money and violate our liberties. Tourists, with their native common sense, seldom visit the Federal Trade Commission, the Drug Enforcement Administration, or the Pentagon. There is nothing inspiring about these places, nothing at all.

The next time you are in Washington, go to the National Archives building, on Constitution Avenue, and strain to read the faded yellow parchment of the original Declaration of Independence. This revolutionary affirmation of the rights of man is nearly illegible today. A brochure that you are handed upon entering the building blames the Declaration's fading on the fact that "for many years" the document "was often carelessly handled." When you walk out of the Archives, into the brilliant sunlight, take a right. You will walk past the Internal Revenue Service, the Federal Reserve headquarters, the ironically named Justice Department. You may think that "carelessly handled" is an awfully polite way to put it.

Not everything in this bastion of statism is politicized, and that is D.C.'s saving grace. The city boasts perhaps the finest high-school basketball in the country. There is a wonderful low-rent theater company, the Source, that performs everything from *Faust* to Sam Shepard in a downtown alley, complete with Thunderbird-soaked bums who act as an unpredictable street chorus. City nightclubs have spawned an indigenous form of soul-funk music known as "go-go," while suburban kids with cheap guitars and apocalyptic poetry give the area a thriving punk scene.

Folks often fret that politics is Washington's only industry, its sole reason for being. Yet if the government presence in this city were excised tomorrow, as one would remove a massive and malignant tumor, the real Washington would endure. The bureaucrats and power-seekers of left and right would scatter to the winds, willy-nilly in search of productive employment. But the kids would still dance till dawn to the go-go beat, families would still walk hand-in-hand to church on Sunday morning, crowds of friendly strangers would still gather in taverns to cheer on their beloved Redskins. Those are the permanent things, the things that make our lives worth living, and they are more resilient than we imagine, even in the seat of the most powerful government in the world.

—Bill Kauffman

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letters

Red in the Face

In your interview of American Indian Movement founder Russell Means (Aug.-Sept.), Mr. Means states that the term *redneck* is denigrating to his color and that the persons commonly called rednecks are really *pinknecks*. Obviously, Mr. Means shares the widespread notion that rednecks are called rednecks because poor rural whites tend to spend a lot of time working outdoors. Actually, the origin of the term has nothing to do with sunburns or skin color.

According to local folklore, *rednecks* first appeared in Mississippi during the rise of a populist politician. James K. Vardaman, governor of Mississippi (1903-1911) and senator (1911-18), was the first Mississippi politician to capture the imaginations of rural farmers. His supporters wore red bandanas around their necks in a gesture of solidarity. Vardaman activists soon came to be known as rednecks. Since these original rednecks tended to be poor rural whites, the term redneck became associated with members of that culture.

Dan E. Rogers
Hattiesburg, MS

Voluntary Censorship?

REASON Editor-in-Chief Marty Zupan is correct when she observes that voluntary decisions of convenience stores to remove sexually explicit publications from sale are not the same as government censorship (Editorial, July). But one should not underestimate the chilling effect on small businesses of government pornography commission warning letters and state prosecutions under local pornography laws. Most such businesses cannot afford to fight the government in court and can be frightened away from selling publications that government officials find offensive. The decision by a business to remove a publication is still voluntary. Nevertheless, government pressure is close to being a loaded gun pointing at a business person's head.

Gerald Schneider
Silver Spring, MD

Ms. Zupan replies: We've received several letters on this. I didn't have room in the editorial—but obviously should have made room—to note that Southland Corp., the owner of 7-Eleven stores, said that it had made its decision to pull *Playboy* and such from the stores' shelves because customer surveys had shown a marked decline in tolerance of their carrying erotic publications. Whether or not the pornography commission's attempt at intimidation also played a part in the decision, we don't know. Southland denies it; we may have our doubts. But it remains a fact that civil libertarians were attacking the Southland decision before the porn commission's letter to erotica dealers had been made public. They find such decisions illegitimate when they don't support the cause (pornography) but laudable when they do (nonunion-picked grapes).

A Little Is Better Than None

Your article on the La Perla project in Guatemala ("An ESOP Fable," Aug.-Sept.) was very interesting. La Perla has indeed offered an important opportunity for employees to become owners. The article suggests that the Solidarity Movement in Central America is also promoting worker ownership. That is somewhat misleading. The Solidarity movement does encourage workers to own stock in their companies, but it performs a number of other functions as well as a kind of employee benefit society. The actual amount of stock held by workers in their own companies in Costa Rica, where the movement is strongest, is still very small.

There is hope, however. Here in the United States, where the employee-ownership movement is better established, the

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letters

typical worker in the typical employee-ownership plan accumulates $31,000 in stock over just 10 years. That is almost three times as much as the typical family accumulated in non-home-equity financial assets at retirement in 1984. Capitalism needs more capitalists, and employee ownership is the best way to do it.

Corey Rosen
National Center for Employee Ownership
Arlington, VA

Taking a Stand on Rand

I was pleased to read Stephen Cox's review of Barbara Branden's biography *The Passion of Ayn Rand* (Aug.-Sept.), but I was disappointed that more attention was not given to the book. Rand's novels have been a source of philosophical and romantic inspiration to millions of people, including many REASON readers. And now Ms. Branden has set forth a work, in its own way equally inspiring, showing that much of Ayn Rand's life was led with the same principles that her characters Howard Roark and Dagny Taggart lived with. We also find that Rand's personality permitted, especially in her relationship to husband Frank O'Connor, a self-deception which both extended and limited her influence over those around her.

With humorless resolve, Rand either loved or hated what she found; she made many snap judgments. In one of them, Rand told Branden, "When I saw the first few pages of that short story which you started and didn't finish...it was those pages that convinced me that you're going to be a great writer." *The Passion of Ayn Rand* fulfills that prediction. It is a book your readers will find revealing and enchanting.

J. D. Daniels
Pawtucket, RI

Aerial Anarchy

John Doherty's review of *Blind Trust* (June) overlooked an obvious point regarding airline safety vs. airline profits. Airline accidents are seldom the result of a single event but rather a combination of events compounding into disaster. Material failure, bad weather, pilot fatigue, pilot inexperience, and maintenance problems can, in the wrong mix, turn an otherwise manageable situation into an accident.

Cutthroat air fares (a result of deregulation) and the profit motive are tempting airline managers to cut costs everywhere. Pilots are flying increasingly longer and harder days with minimum rest. Pilot-in-command positions are given to inexperienced pilots. Maintenance items that used to be repaired overnight are now deferred for weeks. These are all the ingredients accidents are made of and are all attributable to cost-cutting for the sake of profitability.

No airline executive thinks that the way to make money is to crash airplanes, but they are under pressure to make money somehow. Cost-cutting is their answer. Witness Continental Airlines since mid-1983. Beware the deadly combination!

Wyatt Baxter
Renton, WA

Mr. Doherty replies: Profit equals Revenue minus Expense. Profits can be increased by cutting costs *or* increasing revenues. In practice, businesses try to do both, constantly seeking maximum profits. If managers conclude that reducing an expenditure will result in even greater loss of revenue, they won't cut the expenditure. If air travelers think an airline is unsafe, that reflects in a loss of revenue. So airlines spend money to provide safe travel. The profit motive requires this, and deregulation has intensified the pressure on airlines to be safe. Pre-deregulation, airlines didn't worry much about others moving onto their turf. Now there are lots of hungry companies waiting to pounce on any weakness—including public perception of unsafe operations.

But this theoretical debate could go on forever. If Mr. Baxter's point is valid, nonprofit operators should have better safety records, and there should be a correlation between financial health and safe operations. Neither is the case. State-owned airlines operated as cost-plus utilities have worse safety records than America's profit-seeking airlines. The Air Force, where cost isn't usually a factor, crashed a transport 100 miles from where I sit, partly because the crew had to be on duty for 24 hours. And there's the safety situation at nonprofit NASA to consider, along with the FAA's incredible inability to implement safety-enhancing technology.

Mr. Nance could have shown a correlation between financial health and safety, but he didn't because the correlation doesn't exist. And what about bankrupt Continental? As much as I despise Frank Lorenzo and his gang of pickpockets, the fact remains that they've flown through bankruptcy without accident—as has Braniff. The "profit motive leads to unsafety" theory predicts they should have had accidents.

The real-world record is clear. Profit seekers are safety seekers.

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Real Doves Don't Ban Tests

Robert W. Poole, Jr.

In August 1985, on the 40th anniversary of Hiroshima, Mikhail Gorbachev announced that the Soviet Union had halted all nuclear weapons tests and invited the United States to do likewise. Despite exhortations by columnists and arms-control advocates, the Reagan administration has thus far ignored Gorbachev's offer.

At first glance, such a stance appears nothing more than mindless hawkishness. After all, both the United States and the Soviet Union possess enough nuclear weapons to destroy each other as functioning societies. Why continue testing so as to continue building more of these horrible instruments of mass destruction? Besides, unlike other forms of arms control, where cheating is a major problem, nuclear explosions are hard to hide. If the Soviets were to cheat, it's unlikely they could hide the fact, and we could resume testing, too.

Would that the world were so simple! In fact, if your concern is with minimizing the threat of mass destruction posed by nuclear weapons, then you should favor continued nuclear testing, not a ban. The reason has to do with the evolution of nuclear weapons and guidance systems over the past 40 years.

The nuclear weapons of the 1940s and '50s were crude, brute-force devices. They are often referred to as "city busters" because that is all they were good for. The delivery systems, initially manned bombers and later on the early ballistic missiles, were so inaccurate that the warheads were made very large—in the multi-megaton range—to compensate. That way, a miss really was as good as a mile, but at the price of awesome destruction.

By the '60s, guidance-system technology began to improve dramatically, and warhead sizes began to decrease. Today's U.S. ballistic-missile warheads are typically in the range of several hundred kilotons, and while the Soviets still have many warheads larger than a megaton, their warheads' average size has been steadily dropping as well.

But even today's newest ballistic missiles are still only accurate to within a thousand feet or so. The real breakthroughs in guidance have occurred with cruise missiles. These tiny, jet-powered weapons have "active" guidance systems that can home in on a specific target (rather than simply being aimed and lobbed, as ballistic missiles are).

Cruise missiles can be made accurate to within tens of feet, rather than tenths of miles. So they require warheads substantially less destructive than ballistic missiles or bombers. That, in turn, means they can be used against a military target without wiping out the adjacent city and its population.

Most of the present U.S. nuclear arsenal consists of large, old, inaccurate weapons—especially the bombs carried on B-52 bombers, the warheads on Minuteman II land-based missiles, and the warheads on the Poseidon sub-launched missiles. Should nuclear deterrence ever fail, and a war break out, the use of those weapons (and their Soviet counterparts) would wipe out cities and risk causing nuclear winter. The use of cruise missiles would not. It is imperative—morally imperative—that the old weapons be retired and replaced with smaller, accurate weapons usable against military targets.

A comprehensive nuclear test ban, however, like a nuclear freeze, would make it impossible to carry out this essential modernization. Nuclear-warhead design is an iterative process, like every other form of technology. New designs and modifications of existing designs must be tried out to see whether they work before being put into production. A test ban would therefore preclude the very modernization that can make the world safer.

However much we might wish it, nuclear weapons cannot be disinvented. And until a robust set of defenses against nuclear attack is actually in place, we dare not risk giving up some form of nuclear retaliatory force. But we can and must make progress toward a world where mass destruction is no longer the basis of our nuclear policy. A "build-down" to small, accurate warheads is an important step in that direction. It will only be possible if we can continue to test new high-tech warheads as they are developed.

Tempted to Aid? Just Say No

By Virginia I. Postrel

It was peer pressure. Everybody's doing it, Bob told Ron. If you want to be popular, you've got to do it, too. And Ron wanted so much to be popular. Did he say no, like Mommy always says to? No, he said yes.

And now you and I and the rest of American taxpayers are paying $50 million to help the Soviet Union buy wheat from U.S. farmers. Ronald Reagan, "the leader of the free world," couldn't stand the pressure from Robert Dole, the leader of a bunch of Kansas farmers. To buy the farmers' votes, he sold out to the evil empire.

He even admitted it. "The truth is I didn't make this decision for them [the Soviets]. I made it for the American farmer," he said. The subsidized sale is "just a temporary policy," declared Reagan. "We're not out as a matter of policy to continue

subsidizing the Soviet Union."

We all know how temporary "temporary" government programs are. And besides, aid is aid. Instead of paying the current U.S. price of $110 a ton—as they're supposed to do under a treaty, or contract, signed in 1983—the Kremlin's hard bargainers will now pay $85 a ton, with the difference picked up by you know who.

This subsidized wheat will help the Soviets once again avoid the consequences of their oppressive and inefficient economic system. It could well start a trade war with the Europeans, Canadians, and Australians. And it will help some American farmers keep pretending that their work is economically productive.

That illusion, it seems, is worth any price. "Faced with a severely crippled farm economy and with our agricultural imports now actually surpassing exports, can we afford not to adopt a vigorous export policy to take on the European Community?" writes Rep. Vin Weber (R-Minn.) in the *Wall Street Journal*. "Would not any reasonable business, faced with stiff competition, adjust to the reality of the marketplace, if only to stay in business and prevent bankruptcy?"

If "we" were in the agriculture business, we wouldn't sell wheat to the Soviets at a loss and try to make it up on volume—essentially what Weber advocates. But *we* are not in business. *Farmers* are. And they get plenty of money from the rest of us to support their rural lifestyles. (Thanks to all those subsidies, Nebraska last year scored the highest percentage gain in per capita income of any state.)

Weber is right about one thing, though. Farmers do need to adjust to the reality of the marketplace. No more checks for not growing crops. No more rich Uncle Sam to buy the "surplus" they don't want to sell at market prices. No more subsidized sales.

This latest sale does more than reward uneconomic production, however. It gives aid, comfort, and no doubt a big laugh to the totalitarians in Moscow. Our enemies. Bad guys. We spend billions arming ourselves against them. We don't owe them a free lunch, even if it's grown in Kansas.

So, Mr. Reagan, when Mr. Dole comes around pleading for another subsidized sale—corn, maybe, or soybeans—remember what your wife tells teenagers tempted by drugs. *Just say no.* Don't listen when Vin Weber tells you "everybody's doing it." That doesn't make it right. You expect teenagers to withstand peer pressure. And you should, too.

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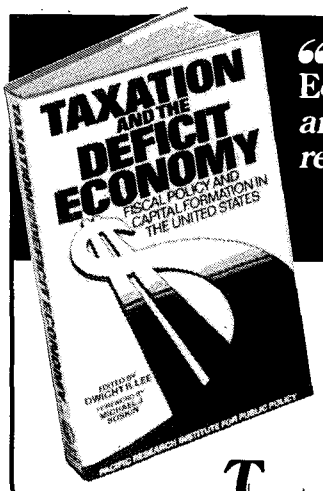
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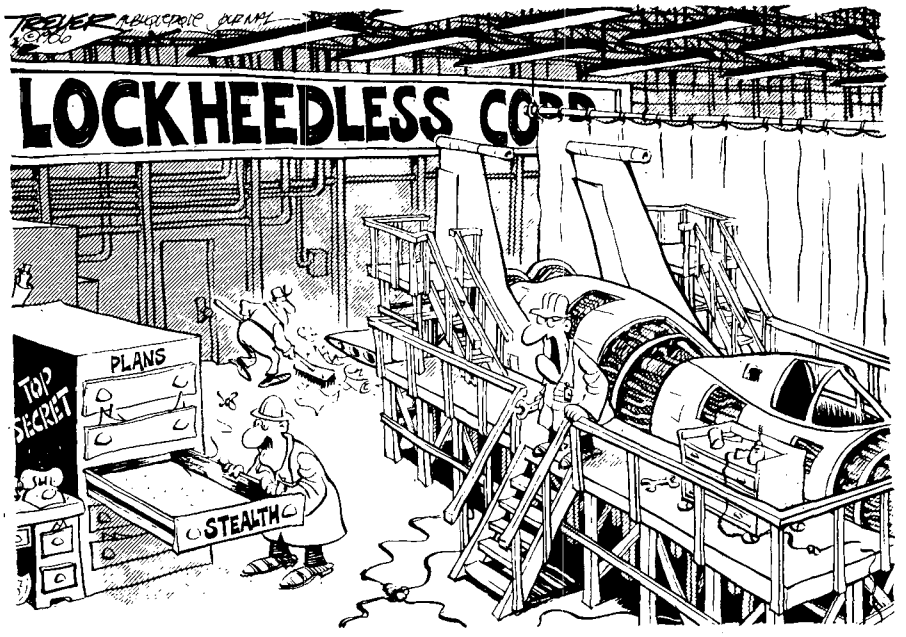
brickbats

The aesthetic sensibilities of Lakeside Park, Kentucky, residents were apparently deeply offended by 13-year-old Jeffrey Kisor's tree house. The city council voted that it must be torn down because an ordinance prohibits such detached structures. "I think the city is weird to say I have to get rid of it," says the young anarchist. "It's in my own yard and my own tree." Jeffrey's father hasn't given up yet. He says he might run wooden beams from the tree house to his house—a distance of 50 feet—thus technically attaching the structure to the house. It won't look very pretty, but it will meet the letter of the law.

Two Atlantic City casinos in the middle of an advertising war over which offers the best odds to gamblers have been told by New Jersey officials to cease the promotional campaigns. Harrah's Marina Hotel claims that its slot machines paid out the most overall in recent months, while Trump's Castle counters that Harrah's players *lost* more overall. Neither claim is in dispute, apparently because Harrah's overall slot-machine volume is greater than that of other casinos. So what's the problem? The casinos violated a law that prohibits advertising the odds of games. Hmm —maybe the state doesn't want people to know casinos offer better odds than its lottery.

You know the old dean's tale, misery loves company? It's now the University of California's official policy that students display sympathy for the have-nots. Every undergraduate student is now required to participate in the Human Corps, a program to promote "the ethics of public service" by foisting 19-year-olds on the populace to fight illiteracy, environmental contamination, inadequate housing, etc. The student whose heart bleeds the most gets an A?

Take pity on Joseph Mauri, an unemployed outcast and victim of cruel American capitalism. At least that's what Mauri and the Soviets would like us to believe. Mauri, the subject of a Soviet propaganda film on America's poor and homeless, claims he was evicted from his New York apartment last year by a heartless landlady who wanted a sewing room. The poor lad says he supports himself by doing odd jobs and now lives in a hotel room paid for by friends. But the Soviets got caught red-faced on this one. "Homeless" Mauri in fact has *two* homes in New York, one a rent-stabilized apartment and the other a hotel room subsidized by the taxpayers. And Mauri has a job as a substitute mailroom worker at the *New York Times* that could pay him over $35,000 a year. But Mauri doesn't bother to show up. No doubt he'll consider all offers of employment once he returns from his expense-paid tour of Mother Russia.

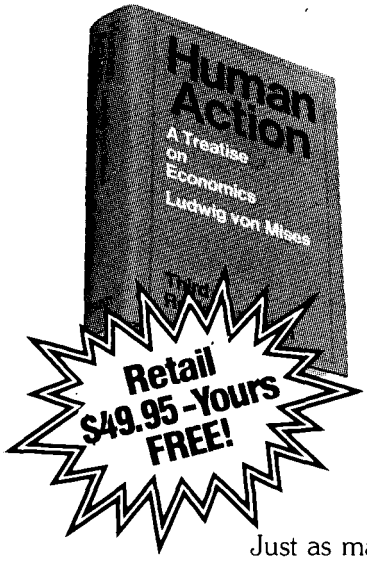


"LOST?! WELL, DON'T JUST STAND THERE! RUN DOWN TO A TOY STORE!"

Is little Niels Hoven white or Oriental? In our quota-conscious age, it makes a big difference. Or does it? When John and Sue Hoven decided that their son needed special reading, math, and science classes, they asked their Maryland school board for permission to transfer him to another elementary school. Because John is white and Sue is Asian, Niels is classified as a minority student. Good? No, bad. There were already too many minorities at the school he wanted to go to. Yet being "white" wouldn't have helped, either. That would have prevented Niels from transferring out of his current school. Why? There are too few white students there.

Schizophrenia is alive and well in New Jersey. A task force to eliminate paperwork in state government has been trashed because it wasn't submitting enough reports. The paperwork management task force saved the state $5.5 million in two years by reducing the number of forms in various departments. For example, the group found there were 30 different forms and 15 different publications for new employees explaining benefits, lunch hours, ethics, etc. The task force designed one brochure and one form for all state employees. But the group was "too independent," says budget director Richard B. Standiford. "We needed reports from them...to make sure there is no duplication." Was the team disbanded because they didn't produce enough paper? "Well, I wouldn't put it quite that way," he demurs.

—Mark Edward Crane



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trends

Will Life in the Fast Lane Soon Be Legal?

There's nothing like enforcing a stupid law to speed up its repeal.

That champion of statism Elizabeth Dole may have done more to kill the 55-mile-per-hour speed limit than any of its opponents. She said she'd enforce the law and told Vermont and Arizona to wave their share of federal highway funds good-bye. These rural states, it seems, let more than half their drivers break the double-nickel limit.

Now politicians are racing to support repeal. Dole's boss, Ronald Reagan, recently told Sen. Steven D. Symms (R-Idaho) that he wants to scrap the law and once again let state and local governments set their own speed limits. A bill that would do just that is pending in Congress; another would modify the law to allow higher speeds on rural interstates.

Nearly a dozen states, mostly in the West, have reduced driving at 65 or 70 to a minor infraction punishable by a mere $5 or $10 fine, with no records kept. Out West, where a driver is more likely to crash out of boredom than from speeding, the legislatures keep trying to convince Washington to let them do it their way.

Meanwhile, a group of Colorado investors has a plan to circumvent the speed limit—and Denver traffic—by building a private toll road from Ft. Collins to Pueblo, a distance of about 200 miles. The highway would compete with Interstate 25, which runs smack through Denver and Colorado Springs, forcing travelers to fight city traffic. Since the road wouldn't use any federal highway funds, developers can set the speed where they want to with impunity—and their target is 80 miles per hour.

The higher speed limit would require a special exemption from the state law, but the legislature is likely to cooperate, the group's attorney, Tom Grimshaw, told REASON. After all, Colorado lawmakers have been among those trying to persuade the feds to lift the double-nickel limit.

Construction of the toll road would begin in about two years, says Grimshaw, and the project would cost about $800 million to complete. To foot the bill, the group plans to float bonds and to raise seed money from railroads, power companies, and water-transmission companies that would use rights of way along the highway.

Colorado hasn't had any private roads since pioneer days. Although a century-old state law does grant private road developers eminent-domain powers to condemn property they need, these road entrepreneurs hope not to resort to it.

Legal questions remain, however. "What do you do about police power? Who patrols?" asks Grimshaw. "If somebody's driving too slow, who gives them a ticket?" With the anti-55 rebellion picking up speed, public highway cops may soon be asking that question too.

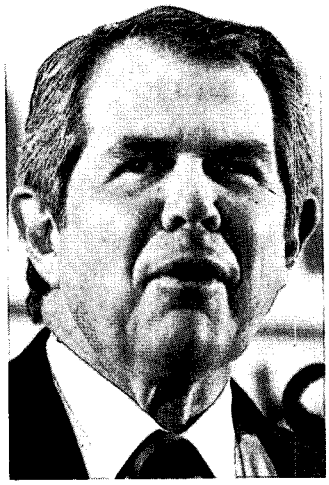
"OLIVER T. BOGGLE, YOU HAVE SINNED. YOU ARE CONDEMNED TO DRIVE BETWEEN AMARILLO AND BARSTOW AT THE NATIONAL SPEED LIMIT...."

Voters Say No to Preaching Politicians

The nascent presidential candidacy of television evangelist Pat Robertson has triggered fears that a new wave of moral regulation is approaching, primed to swamp our civil liberties in a deluge of sanctimony and Meese Commission reports. But it seems that the American people are in fact less than enthusiastic about a new moral crusade.

According to a recent *Los Angeles Times* poll, most Americans retain their traditional distrust of government meddling in personal affairs, even while 9 out of 10 consider religion "important" in their lives. Among the findings:

- A minority—38 percent— support laws against the distribution of pornography to adults.
- A smaller number—35 percent—support laws forbidding homosexual acts between consenting adults.
- By a 5-to-3 margin, Americans see moral regulation as an "annoying...intru[sion] into the private lives of citizens" rather than a noble effort to "protect activities that flout traditional family values."


Television evangelist Pat Roberston—driving away younger voters?

The poll contained particularly bad news for Robertson, whose campaign has a strong religious flavor. Political candidates "who bring in their own religious beliefs when they discuss issues facing the nation" were disapproved of by 2½ to 1. By the same margin, they said they would be "less likely" and not "more likely" to vote for "a political candidate who described himself as an evangelical Christian."

Robertson's political ambitions have also discomforted some party leaders, who fear that a candidate urging the government to step up regulation of our personal lives might drive away younger voters (See "Making Republicanism Cool," June). Republican National Committee chairman Frank Fahrenkopf admitted to the *Wall Street Journal*: "We face the problem right now that the great strength of our party is among young voters, and on some of the social issues they are less conservative" than Robertson.

Robertson, it should be noted,

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sometimes makes a lot of sense when he turns his attention to economic issues, where his favorite theme is the need "to get the federal government off the backs of the people and out of our pocketbooks." Well, how about keeping the beast out of our bedrooms, as well?

Freedom of Flight No Longer for the Birds

As the evidence rolls in, more and more mainstream thinkers are acknowledging the enormous benefits of airline deregulation. One of the latest reports on freedom of flight's up-side comes from a once-unlikely source—the Brookings Institution in Washington, headquarters of the liberal policy establishment in exile.

In *The Economic Effects of Airline Deregulation*, economists Steven Morrison and Clifford Winston estimate that since 1978, deregulation has saved travelers $6 billion a year (in 1977 dollars) and earned airlines an extra $2.5 billion a year. The book also argues that many of the nasty effects that skeptics predicted just haven't come to pass.

Critics charged, for example, that deregulation would deprive small cities of service. But, found Morrison and Winston, deregulation has actually preserved or improved air service at many small airports by making it easier for airlines to tie them into hub-and-spoke routing systems. Without deregulation, they estimate, about 40 more airports would have lost all commercial service. And travelers going from one small city to another now have many more flights to choose from, thanks to routes that take them into a large airport, the hub, and out again to their destinations.

"In the years to come," Morrison and Winston conclude, "deregulation will almost certainly be regarded as a spur to the airline industry's continued development and a substantial contribution to the American economy." In other words, it's the only way to fly.

Shall I Compare Thee to an Iowa Social Worker?

The librarians of Minnesota should be happy bookers. After all, they're worth 30 percent more than their professional colleagues in Vermont, who in turn are 20 percent more valuable than the poor folks who shush talkative book lovers in Iowa. Minnesota secretaries, on the other hand, ought to sneak south of the border—in neighboring Iowa, they'd be worth 40 percent more.

No, typing hasn't suddenly gone out of style in Fritz Mondale country, nor have the state's librarians joined the Teamsters. These anomalies, and many more, are courtesy of "comparable worth"—the tidy system that was supposed to end sexist wage differences by rationally determining how much each job is "really" worth.

Now that several states have actually set up comparable-worth systems for public employees, comparative data are flowing in. And the results are showing what economic theory predicted all along. Wages set by bureaucrats and consultants, rather than supply and demand, turn out to be arbitrary and inconsistent.

global trends

Tomorrow, the Promised Land

JERUSALEM—It was almost 60 years ago that socialism was institutionalized in Israel. Israel's has never been a straightforward form of socialism, as practiced in Eastern Europe and the Soviet Union, but the similarities, especially in the economic sphere, are striking.

Politically, Israel never adopted U.S.-style democratic reforms such as direct representation, a constitution, and the separation of powers. Nonetheless, it is a democracy—not perfect, but it does work.

Yet after decades of economic failures, as well as wars, some people are flirting with quite uncommon ideas—at least for this part of the world. These Israelis, despite years of indoctrination in the benefits of their "unique" semi-socialist collectivist system, have come to realize that constant warfare, economic and political instability, and corrupt ruling political organizations must finally be dealt with.

"Independence" (Atzma'ut) was the first party to call for a reform of the *whole* political and economic system. Since 1978, it has advocated total free enterprise in economic matters, direct elections, a constitution, and a separation of powers, including a presidential system. Independence's bold positions received much acclaim in the press but did not lead to any significant show at the polls in either the 1981 or 1984 elections.

One of the party's major themes is the rejection of all foreign aid, in the belief that the country can be run with its own resources, contrary to what most Israelis seem to think. Another controversial Independence proposal—to abolish the income tax—was not credible to most people, nor were other innovative ideas pushed by the party. Independence is still around, though, and it publishes the only free-market economic journal in the country, *Free Man*. The party's leader and chief ideologue, Prof. Ezra Sohar, is now the don of free-market thinkers in Israel.

Recently, a middle-of-the-road party called the New Liberal Center, led by the mayor of Tel Aviv and former Liberal members of the Likud, has adopted some of Independence's ideas. Polls show that the party will probably elect a few representatives its first time around. A presidential system, a constitution, and a freer economy are its principal planks.

For the time being, it seems that the greatest legal advance for freedom is the recently approved free-trade zone in Israel's southern port and sea resort, Eilat. Abolishing the value-added tax for all goods sold there increased business by almost 20 percent, and tourism is thriving.

There is also good news from the black market: 430 illegal cable TV stations cover the country, making huge profits and taking small fees while police and the state are totally helpless. The state-owned TV system here really is that bad!

—Oded Yinon

So They Loaded Up the Truck and Moved to Bogota

DOING SOMETHING about the rapid migration of rural dwellers into Third World urban areas has become a prime concern of planners and academics who specialize in less-developed countries. But a new study of the process

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Would you like up to $2,000 for just making a few phone calls and looking in some phone books? That is all you have to do to enjoy this kind of money. If you can read English and can talk on the phone, you can make thousands of dollars in a few hours—and you don't have to do any selling at all.

I am going to show you how you can make up to $2,000 an hour. This ad will also explain every detail of an exciting new business that has never been advertised or attempted before—what's more, you can enter with no money.

Life was not always rosy for me. I got involved in a bad business investment two years ago and I lost more than $11,000. I lost every cent I had, even money I didn't have. I worked as a clerk by day and a waiter by night. I never really liked cleaning tables, but what else could I do? I had to stop disappointing my loved ones. I remember coming home on Mother's Day really anxious to call my mother, only to find the phone disconnected. I went through my mail and prayed for some good news, only to find an envelope with no return address—it contained an eviction notice. We were fortunate to have relatives that were kind enough to let us stay with them. I didn't know that being in debt could hurt so much. I prayed for a way out.

My friend Gary who was in the same financial boat as me told me a story that changed my life forever. He told me very excitedly "I received a funny-looking letter in the mail. When I first saw it, I thought it was another creditor making a claim on me. The letter told me about money that was rightfully mine—it said that if I signed the enclosed form, I would receive $2,592.59. Things were so bad that I had nothing to lose, so I signed the form neatly and returned it to the company.

Ten days later I received a check for $2,592.59. With an explanation. A distant aunt had died and left $4,320.98 in her savings account. The company that found me collected $1,728.39. The firm had no trouble finding out that I was related to her. Just for matching up people with the same last names, that company was making millions each year."

$50,076.78 In One Month

This great opportunity really excited me. I was compelled to find out more about it. What could I lose? I found out everything I could and began to work on a plan. I put it into effect. My prayers were heard. To my relief I started to make more money than I have ever seen in my life for doing practically nothing. In fact my income last month was $50,076.78.

I got a C-minus average in high school—one year, I got an F in English. By no means was I ever considered to have the smarts. ***All you have to do to make up to $2,000 an hour is thumb through phone books and make a few calls.***

My family and I have always loved the beach, so last summer we moved into a gorgeous home. My wife told me it was her life long dream to own a brand new car. You should have seen the tears of joy when I surprised her with her new $20,000 car. Later I bought a 1986 Mercedes 560 SL. That cost me over $50,000.

The amount of money I was making was incredible. Just as a hedge against taxes, I bought two 3-bedroom houses valued at $200,000. I asked everyone in my family what they wanted the most and they said they wanted to see all of us together going places. In the past month we have visited three countries. In fact, we take a vacation every month. It's great seeing the joy in everyone's eyes as I spend more time with them. **All of this for thumbing through the phone book.**

Twenty-five billion is just setting there waiting for someone to recover it. One out of ten Americans have forgotten or lost money in bank accounts, stocks, insurance premiums, etc., worth as much as the amount of $10 bills you could lay end-to-end around the world: **$25 billion.** I will disclose a plan to you that will show you how to get your hands on this money.

Only 10% of the rightful owners claim their share of the $25,000,000,000. The states make no strong effort to contact the rightful owners. Why should they, when unclaimed property is their biggest source of revenue, second only to taxes? The states are required by law to make a list of unclaimed owners. These lists are hard to find but I will show you how to get every one that the states publish. **And in some cases, they're free.**

Let me give you a random sample list from the state of Wisconsin. (Addresses are included in the lists.)

Owner's Name	Property	Amount
Drinka, Teresa, A	Savings	$10,891.47
Lavelle, Samuel	Stock Proceeds	$21,529.61
McDonnell, Martha	Savings	$12,843.78
Meyer, Thusneida	Savings	$18,489.18
Patterson, Arthur	Savings	$14,629.24
Stien, George	Savings	$57,525.83

This listing is only a minor portion of the $25 billion in unclaimed property that is waiting for you.

California still hasn't found the owner of one account worth $186,000. Someone in Massachusetts left behind $400,000. North Carolina owes one person $500,000. **All you need is a phone and a phone book to get your share of $25,000,000,000.**

Sample Proof

Bonnie Goldstien, a well-known syndicated newspaper writer who doesn't know very much about finding people, located the owners of $4,100 in two and a half hours with two telephone directories—she said so in the "San Francisco Sunday Examiner & Chronicle."

Sworn Testimonial

I've spent at least $7,000 on money making books and seminars. The difference between them and your method is that yours works! In less than three weeks (part time) I was able to secure $52,614.21. Thanks for a business that will easily make me $100,000 this year. If I can ever be of service just call.

Steve S.
Longmont, Colorado

As soon as you receive my book, you can make up to $2,000 an hour. All you need are telephone books and a phone. The proven system in this book can be learned in a half hour. After that, you are all set. If you can read English and can talk on the phone, you're in business. It's as easy as that.

My Guarantee

Send for my complete guide to recovering unclaimed money. Read the simple formula that has been tailored for each individual state. Sit down and make the required few phone calls and directory searches. **After following the simple formula, you must be able to recover up to $10,000 in one day** or your complete payment will be returned to you.

Everything in this ad is true, but I don't expect you to believe me. I want you to hear it from a very credible source. **Contact any politician and he or she will verify how much unclaimed money the states have.**

This opportunity can give you a new home, car and all of the luxuries money has to offer. Think of what up to $10,000 today could do for you. Could you use this kind of money? There is a definite flaw in our revenue system, and you can profit from it. I pride myself on making your decision simple. **You can either enjoy up to $2,000 or be one hour older—the choice is yours.**

David Bendah (619) 265-8777
6602B El Cajon Blvd., Dept. EK
San Diego, CA 92115

Dear Dave,

You can show me how to make up to $2,000 an hour, so $10 is a small price to pay. Send me your complete guide to recovering $25,000,000,000 in unclaimed money on the condition that I must be able to recover up to $10,000 easily in one day with your book or you will return my entire payment.

On that basis, here is my $10.

Name _____

Address _____

City _____ *State* _____ *Zip* _____

For rush delivery please add **"2 dollars"**. For this type of delivery write RUSH in large letters on outside of envelope.

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trends

Sure, the market produces differences that bother feminists—paying chemists, who are in short supply, more than librarians, who are not, for example. But these "new and improved" systems create differences of their own, even for the exact same job. The market says a librarian and a chemist aren't doing the same job; comparable worth, a new study reveals, would seem to be saying that a librarian and a librarian aren't doing the same job!

The study, done by the Center for the Study of American Business at Washington University (St. Louis), demonstrates gross inconsistencies in comparable-worth schemes. After putting states' different job-rating systems on the same numerical scale, using 100 to represent the lowest-paid job in each state, research analyst Richard E. Burr finds wide discrepancies in the "worth" of the same jobs. Photographers, for example, snap up 283 points in Vermont, 167 in Minnesota, and a paltry 133 in Iowa.

Behind these discrepancies, Burr reveals the problem with all comparable-worth systems: Somebody has to come up with a "politically correct" way of defining and weighting job characteristics. And not everyone agrees on how important each characteristic should be.

In true feminist fashion, for example, Iowa gives its highest weighting to the knowledge a job requires (25 percent) and counts physical demands the least (5 percent). Michigan, on the other hand, downplays knowledge to a mere 11 percent and gives physical activities a respectable 8 percent weighting. But the state also redefines physical dexterity—a component of "physical activities"—to suggest, says Burr, "that lifting a 75-pound box every two hours requires the same effort as typing and lifting many smaller objects such as files and pencils during the same time period."

That must be why so many bodybuilders work out with pencils.

Liberty Grows on the Green Side of the Fence

The beauty of a free society is that, rather than force one centrally designed utopia on its hapless citizens, it creates a "framework for utopias," as philosopher Robert Nozick has put it. This principle itself seems to foster pro-liberty, antigovernment sentiments, as can be seen in elements of this country's communal, ecologically oriented Green, or New Age, movement.

Take, for example, the Cooperative Resources and Services Project (CRSP), a Los Angeles-based New Age-ish organization. The CRSP serves as a training center and information clearinghouse for all sorts of communal ventures, from the worker-owned Ocean Beach Peoples Food Cooperative to a new Ecological Revolving Loan Fund, which will make loans to "ecological cooperatively owned" businesses. Since its founding in 1980, the CRSP has advised several hundred businesses, groups, and individuals on the nuts and bolts of cooperative living and enterprise.

The group's undertakings may have a nonmarket, antiprofits aura about them, but they are emphatically *not* dependent on government help. For instance, a current project, the Los Angeles Mutual Housing Association, seeks to develop small, cooperatively owned "cohousing" communities. (Its first project will be a 25-unit community.)

But no government assistance is required, thank you. "We like to stay as far away [from government] as possible," CRSP executive director Lois Arkin told REASON. The group believes that the best way to make housing affordable for low- and middle-income folks is to "privatize government-owned land," preferably by selling it to voluntary housing coops.

The CRSP's faith in voluntary solutions to social problems is also evident in its eight-page fact sheet on homelessness. The organization shuns welfarist liberal bromides—Arkin writes that housing shortages are an example of "overdependence on government to solve problems it created and is now ill-equipped to solve." The pamphlet denounces public housing as a "discredited solution."

What is CRSP's answer to the well-publicized plight of the homeless? Private charity and the donation of time and energy, of course. But in addition, the group recommends a more enlightened attitude toward "squatters rights." It urges that homeless individuals who live as squatters, usually on land owned by governments, be provided assurance that they will not be tossed out of their makeshift shacks. With that assurance, "spontaneous investment of squatters' sweat equity in upgrading their communities usually follows." (Compare the Global Trend

global trends

of urbanization in Bogota, Colombia—undertaken by the planners extraordinaire at the World Bank, no less—suggests that sometimes, the best planning may be no planning at all.

For five years the bank studied 4-million-people-strong Bogota, chosen as your typical developing Latin American city. In one respect, though, Bogota turned out *not* to be typical: instead of regulating new-housing development, the city government encourages a system of unregulated private housing known as "pirate development." And the result, as the World Bank study found, is that Bogota has managed to avoid the illegal land invasion and impoverished squatter areas that typically plague growing Third World

Policy analyst Ann Bernstein, writing in South Africa's *Finance Week*, explains the scene in Bogota. Pirate developers "buy rural land on the fringes of the city, subdivide it into housing plots (ignoring local planning rules), and then sell the plots with few or no services" such as water hookups. Urban migrants then build basic housing on these plots.

Fears that pirate development would turn Bogota into a giant shantytown, says Bernstein, have proved unfounded. The study found that it takes an average of just five years for migrants to turn their shacks into conventional houses. Over the last 20 years, pirate development has accounted for 50-60 percent of all residential housing construction in Bogota. "There is no doubt," writes Bernstein, "that this supply system helped Bogota to cope with its rapid growth—from 607,000 people in 1950 to over 4 million in 1983."

Which goes to show you: Folks will generally make out all right if government just leaves them alone. Let Bogota be a lesson for all Third World governments. And First and Second World ones, too.

Global Roundup

■ *Good News Good News from Pago Pago.* The U.S. territory of American Samoa is going on a privatization rampage. Governor A. P. Lutali has sold off the island's marine railway and is negotiating to get the state out of businesses from electricity to hospitals. Says Lutali: "Nearly everything except the schools and roads are on the drawing board... —but even those have not been ruled out."

on Bogota, page 16.) Simply put, the proper response to homelessness is private charity *plus* giving the homeless the chance to do things, such as build a home, for themselves.

To encourage this urban homesteading, the CRSP urges state authorities to "turn a blind eye to building and occupancy code violations" that, if penalized, prevent individuals from living in housing deemed unsuitable by government bureaucrats. The CRSP ends this remarkable little pamphlet with a description of the numerous jobs—taxi driver, street vendor, prostitute, newsstand operator, even street-corner pencil salesman—that are closed to the poor by Los Angeles laws and regulations.

Some people may find groups like the CRSP a bit too starry-eyed or communally minded. We all have our own visions of utopia. But that, after all, is what freedom is all about.

Save the Whales—Support Property Rights

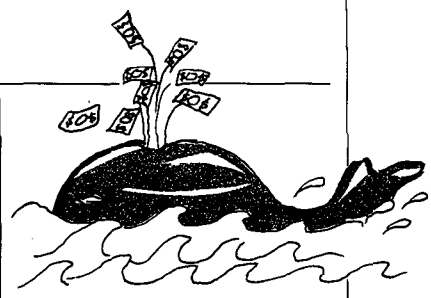
Thousands of Oregon sea lions owe their lives to an obscure businessman out to make a buck.

While the state was paying bounty hunters to kill the animals, R. E. Clanton preserved the only mainland breeding grounds for Steller sea lions. In 1927, he bought Sea Lion Caves, the largest sea cave in the United States, and opened it to tourists a few years later. To protect the animals their customers came to see, Clanton and subsequent owners spent much of their time fending off the bounty hunters who elsewhere almost wiped out Oregon's sea lion population.

Nowadays, federal law tries to protect the animals Oregon once paid to have slaughtered. But most people still look to the government to set and enforce environmental policy, and environmentalists usually see free markets and profits as the enemy.

These attitudes may be changing, however. More and more people are recognizing that the surest way to protect wildlife and wilderness areas is through private property, not government decree.

One sign of the new environmental philosophy is the rapid growth of the Nature Conservancy. Founded in 1951, the Arlington, Virginia-based group has saved 2.4 million "ecologically significant" areas the oldfashioned way—by buying them. From 1977 to 1985 the Conservancy's membership increased almost ten-fold, to 230,000 individuals from 25,000. The nonprofit group also draws so much support from business—about $35 million and thousands of acres of land a year—that *Industry Week*



magazine has dubbed it "Industry's Favorite Environmental Group."

Clifford E. Messenger, a Nature Conservancy board member and former Wilderness Society activist, told *Industry Week* he switched groups several years ago when "I began to realize that you can win a victory today in Congress but lose it eight years later. But if you own the land, it will *stay* protected." Ah, property rights!

Even the federal government, or at least one small part of it, seems to be coming around to the recognition that private property encourages conservation. In its annual report early this year, the Council on Environmental

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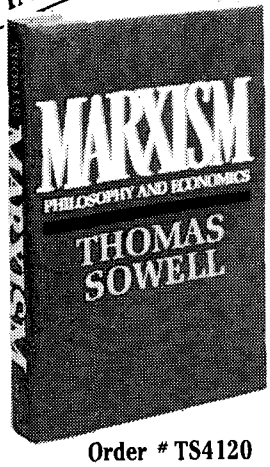

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— Judge Hand in Helvering v. Gregory 69 F 2d. 810 (1934)

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Quality (a branch of the Office of Management and Budget) included a special section on private conservation efforts. "Unowned resources are more likely to be over-exploited than resources privately owned and managed, since a private owner directly benefits from the preservation and maintenance of such resources and thus is more likely to act as a responsible steward," the report observed in its prologue.

Along with Sea Lion Caves, the CEQ showcased 11 private conservation efforts. North Maine Woods Inc., for example, is a nonprofit group that owns 2.8 million acres of undeveloped, primitive forestland and charges visitors lower fees than a nearby state park. At the other end of the size spectrum is Sassapaw Research Refuge, an 18-acre farm run by a retired biologist as a habitat for butterflies, moths, and wasps.

Even the oft-maligned business of hunting has gained recognition as a tool in preserving wildlife. The reason is simple incentive: If you're running a for-profit hunting range, the last thing you want is a scarcity of game. The Deseret Ranch in Utah, which offers hunting on a quarter million acres, employs innovative grazing techniques that have increased both the ranch's domestic livestock herds and its wildlife population. In fact, the ranch has been so successful that the state of Utah is transplanting Deseret elk to public lands to improve hunting there.

A group of scientists has even suggested a market approach to that favorite environmental cause —saving the whales. As things stand now, whales are literally priceless and therefore undervalued; whalers have every incentive to kill as many animals as possible, since that's how they make the most money. And they have found ingenious ways to cheat on environmentalist-inspired treaties that restrict commercial killing.

So, suggests the proposal, why not give the world's whales to the now-ineffectual International Whaling Commission? The IWC could then make whales private property by auctioning off whaling rights; proceeds would pay for the boats and crews needed to monitor whale stocks and enforce the new arrangement. Since whalers who owned the rights wouldn't want to destroy their own crop, they wouldn't kill off the animals faster than they could reproduce.

Free-market conservation. It's a whale of an idea.

Milestones

☐ *Cornhuskers 1.* Nebraska has a new law making it the first state to allow local phone competition, effective January 1. The law, which still faces legal challenges, would also remove most price controls. One reason for the move: with no competition forcing relief from monopolistic phone rates, many companies had started to bypass the local phone network, the state telecommunications director told REASON.

■ *Debtor late than never.* Debt-for-equity swaps—an exchange in which Western lenders trade outstanding loans for a stake in various Third World businesses, instead of hitting up their own governments to bail them out—is proving a partial answer to the onerous debt problems faced by many impoverished nations. Chile, Mexico, and the Philippines are among the countries encouraging such swaps, which will total close to $2 billion in 1986.

—Robert W. Poole, Jr., Lucy Braun, Bill Kauffman, and Virginia I. Postrel

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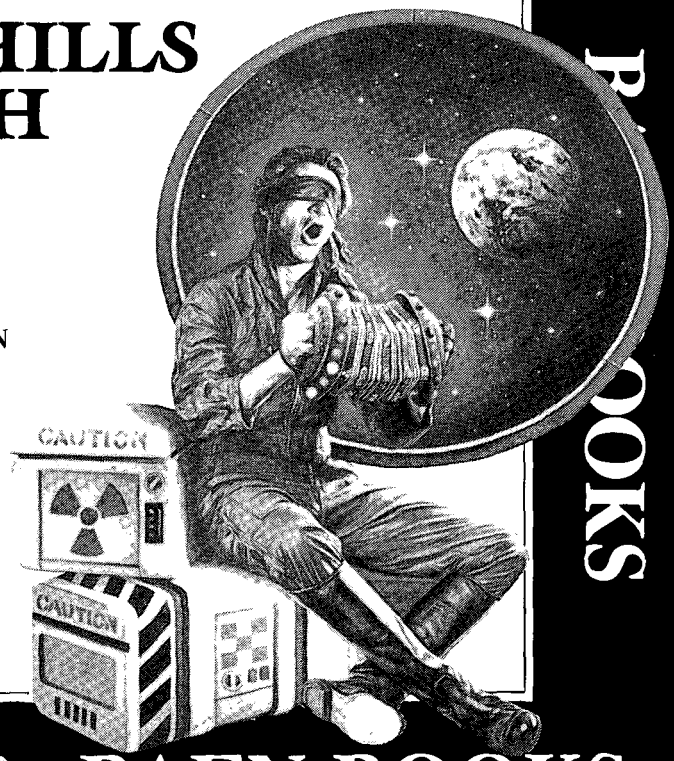

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No More Rich Bully

by Melvyn Krauss

Don't send troops. Don't send aid. There's a better way to meet the Soviet threat in the Third World.

In recent years, the Soviets have made enormous gains in extending their influence in the poorer countries of the world. "As a result of the Kremlin's efforts over the past decade," writes Charles Wolf, Jr., of the Rand Corporation, "the Soviet imperium now includes Angola, Ethiopia, South Yemen, Vietnam, Laos, Cambodia, Benin, Madagascar, Congo-Brazzaville, Afghanistan, Nicaragua, Syria, and Libya, in addition to its previous satellites, allies and associates in Eastern Europe, Cuba, and North Korea....While there have been some Soviet losses and setbacks (e.g., Somalia and Egypt) during this period, there is no question that the gains and extensions of the Soviet empire have vastly exceeded the losses and retrenchments."

One reason the Soviets have attained critical influence over the foreign and domestic policies of these countries has been their ability to split the opposition to their Third World imperialism. Japan, for example, is the very model of a rich, democratic nation dedicated to the proposition that it should not do anything to defend freedom beyond its borders. As far as Western Europe is concerned, the threat of a Soviet military invasion has effectively neutralized European opposition to Soviet expansion in the Third World. The fact that the United States stands virtually alone among the Western powers concerned with growing Soviet influence in the Third World, and willing to do something about it, makes urgent the adoption of a unilateralist foreign policy by this country.

The success of the Soviets in extending their influence in the Third World is due not only to their ability to neutralize the opposition, but to superior tactics as well. Unlike the United States, which has allowed American combat forces to be used directly in the attempt to contain communism in the Third World on several occasions—Vietnam, Korea, and Lebanon, to name but three—the Soviets rarely allow their troops to be used directly in combat. "Soviet troops are generally only a final, and usually disfavored, resource," writes Wolf, "whose use is confined to such exceptional circumstances as Afghanistan." The Soviets do not have a knee-jerk, "send-in-the-marines" mentality. When "marines" are required, the Kremlin is smart enough to send the other guys' marines, not their own.

According to Wolf, "the Soviet Union has developed an artful and complex network of cooperating 'fraternal' communist states (e.g., Cuba, Vietnam, East Germany, North Korea, and Nicaragua), as well as supportive non-communist states and entities

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(e.g., Libya and the Palestine Liberation Organization). These participants perform military as well as non-military roles and provide contributions in forms that vary in different contexts and 'projects.' Although precise operational details are—unsurprisingly—shrouded in secrecy, orchestration is provided by the Soviet Union, which also pays most of the bills."

The Soviet "takeover network" can be thought of as a set of triangular relationships, with the Soviets occupying one corner of the triangle, the Soviet proxy nation at the second corner, and the local communists in the country of conflict at the third corner. An example could be the Soviet Union, Cuba, and Angola. The Soviets provide Cuba with infrastructure, weapons for the military operations, and economic aid. Cuba, in turn, sends combat forces and military weapons to local communists in the country of conflict.

Should the local communists prevail, the Soviet Union receives a variety of benefits from the new member of its empire, including access to its troops for use as proxy troops in other countries targeted by the Soviets as takeover candidates. Should the communists lose, on the other hand, the Soviet leaders do not have to face the kind of trouble at home and embarrassment abroad that U.S. leaders faced after defeat in Vietnam or, more recently, the fiasco in Lebanon when 250 U.S. Marines were killed.

Copycatting the Soviets

The Soviet use of substitute forces to extend their influence in the Third World has been so successful that some leading anti-communist strategists in the United States are openly advocating that the United States copycat the Soviets by developing an American network of "cooperative forces" to assist "genuine and legitimate movements within the Third World seeking to achieve liberation from communist imperialism and totalitarianism." According to Rand Corporation analyst Wolf, who favors the use of American substitute forces abroad, "the purpose of these forces would be to contain or reverse communist imperialism in the Third World, and to further the mutual interests of the U.S. and its cooperators in the development of more pluralistic and more open political systems in the Third World."

The problems Reagan recently faced with Congress over aid to the Nicaraguan rebels, however, illustrate why any attempt on the part of the United States to copycat Soviet use of substitute forces is likely to prove ineffective. Just because a given strategy works for one person, or nation, does not mean that it will work for another. Different nations have different traditions, institutions, and cultures that make them more or less suited to different types of activities. In economics, this is called "the principle of comparative advantage." There is reason to believe that while the Soviets have a "comparative advantage" in using substitute forces to further their imperialistic ambitions, America's comparative advantage in countering them lies elsewhere.

U.S. political institutions have been built on the principle of decentralized power. The Founding Fathers were sufficiently concerned that no man—or groups of men—gain excessive influence over public affairs that they put into the Constitution the principle of separation of powers: that there be three branches of government—executive, legislative, and judicial—and that each branch should be dependent upon, and thus checked by, the others. This is an optimal system of government for an isolationist society concerned with maximizing the individual freedom of its citizens. For a society concerned with developing a network of cooperative forces to thwart an enemy abroad, however, it is inferior to the centralized and secretive Soviet system.

Economic aid reinforces Uncle Sam's image as a rich bully, using its enormous wealth to manipulate others.

Once the Soviet decisionmakers make up their minds to act, for instance, there is no analogous institution to the U.S. Congress in the Soviet Union to frustrate their plans. The trade-off problems Reagan faces with the Congress to get his program through have no counterpart in the Soviet system. Perhaps even more important for the Soviet success with substitute forces is the fact that the Kremlin is able to work in secret. The doctrine of public accountability does not exist in the Soviet Union, and Moscow is not confronted by a free press determined to expose, and undermine, each and every covert activity taken by the Kremlin. This gives Moscow an enormous advantage over Washington so far as freedom of action in foreign policy is concerned.

In summation, the fact that the Soviets have had considerable success in extending their influence in the Third World through the use of substitute or cooperative forces does not mean that the United States will have equal success in countering this influence by copying them. Soviet institutions are structured to give their leaders maximum flexibility and resources to pursue subversion abroad; American institutions are structured to restrain our leaders from unduly restricting the rights and freedoms of individual citizens. Playing the Soviet game with American institutions and attitudes makes about as much sense as would playing the American game with Soviet institutions. If the United States is to effectively counter the Soviets in the Third World, the game it plays must be its own.

Is Economic Aid the American Game?

If the Soviet Union has a comparative advantage in the use of substitute forces to further its imperialistic ambitions, does the United States have an analogous comparative advantage in the use of economic aid to counter the Soviets? At first glance, the answer to this question appears to be in the affirmative. The United States clearly is a wealthier country than the Soviet Union. If it has a comparative advantage in anything, it would appear to be in economics. Certainly the United States can afford to give more economic aid to poor countries than can the U.S.S.R.

Another reason, some argue, that the United States should use economic aid to combat Soviet expansionism in the Third World is the apparent success of the Marshall Plan. What appears to have worked in Western Europe also should work in the Third World. The idea that a Marshall Plan for the Third World is—or perhaps should be—the American answer to the Soviet challenge in the Third World certainly is a widely held one. But like many widely held ideas, it happens to be incorrect.

This is truly a pity, because the vast wealth of the United States would make it relatively easy for this country to defeat communism if the solution to Soviet expansion in the Third World was that simple. However, two leading international economists, Gottfried Haberler of Harvard University and P. T. Bauer of the London School of Economics, argue that the success of the Marshall Plan was a unique occurrence not likely to be duplicated in today's poor nations.

"It is one thing to assist a war-ravished industrial country to put its economy back on its feet," writes Haberler, "and it is an entirely different thing to help a less-developed, backward country change its way of

ILLUSTRATIONS BY RAFAEL LOPEZ

life and modernize its economy." Bauer notes that "the success of the Marshall Plan in the early post-war years is frequently invoked in support of wealth transfer to the Third World." But, he argues, "this analogy is altogether misleading. The damaged economies of Western Europe had to be revived, not developed. As was evident from prewar experience, the personal, social, and political factors congenial to economic achievement were present."

Few economists, even those who favor economic aid, argue that aid can substitute for what Bauer calls the "personal, social, and political factors" necessary for economic development. What they do argue, however, is that aid is better than nothing—that it can provide relief for people who suffer from extreme poverty and that this, too, is important in the fight against the spread of communism.

This argument is misleading for two reasons. First, economic aid seldom reaches the poor people for whom it is intended. Because economic aid is given for the benefit of poor people does not mean that the poor actually receive it. The reason is that the aid must be intermediated, and what happens in more cases than not is that the intermediary—the government—confiscates all or part of the aid for itself.

The tragedy in Ethiopia is a case in point. One has to be hard-hearted indeed not to be deeply moved by the situation in that poverty-striken north African country. What did it matter if Ethiopians were communists, capitalists, or whatever? These people were dying a most horrible death before our very eyes—indeed, even as we sat in the comfort and security of our living rooms viewing them on television. Who was not moved to give, and give generously, in the face of such calamity?

The sad fact is, however, that the major part of the aid sent to Ethiopia did not provide the relief for which it was intended. Before it could save lives and relieve hunger, the aid was confiscated by Ethiopia's government and used for political purposes—specifically, to feed Ethiopian soldiers who were fighting anticommunist rebels protesting the extreme poverty and political repression imposed on their country by the communists.

And as P. T. Bauer and B. S. Yamey write in *Commentary* magazine: "The Marxist-Leninist government there has regularly received much Western aid, mostly from multilateral sources, with an appreciable U.S. and British content. This totaled about $1 billion over the five years 1978-1983. Throughout this period, the government pursued...damaging and destructive policies..., including persecution of productive groups, coercive collectivization of ag-

riculture, large-scale confiscation of property, and underpayment of farmers by state buying agencies. Western aid continued nevertheless.

"What has happened to all this money? Obviously very little of it has gone to the poorest. Some of it has presumably helped the government to fight its several civil wars and to finance the extravagant Organization of African Unity with headquarters in Addis Ababa."

The Ethiopian case is not the exception to the rule—it is the rule. Economic aid seldom reaches those for whom it is intended. But even in cases where some of the aid does get through, the temporary relief it provides is somewhat of an illusion. By increasing the amount of food available for domestic consumption, food aid depresses the price of agricultural products in the recipient countries. Such price reductions in turn depress domestic agricultural output, so that what the recipient country gains in food aid it loses to some extent in domestic output.

This is why Third World countries desirous of developing a viable food industry for domestic consumption should steer clear of food aid. The influx of free foreign food into the domestic market damages local producers and can even ruin them.

The analysis of how food aid creates weakness and dependency in recipient countries can be extended to the case of more general foreign economic assistance. Consider a candidate for foreign aid that is experiencing economic difficulties because of faulty domestic economic policies. If the aid is not given, the difficulties may eventually lead to a policy reversal. The problem can, and often does, correct itself. But rendering economic assistance to the troubled country removes the incentives for domestic policy reform and perpetuates the status quo. In effect, the continuation of the bad economic policies becomes dependent upon the foreign aid: so long as foreign aid is maintained, bad economic policies persist.

Pacific Basin Cases

Taiwan and South Korea are two cases where foreign aid has accommodated poor economic policies. Economic interventionists long have argued that U.S. economic aid was an important springboard for the rapid economic growth these two Pacific Basin countries have achieved during the past two decades. This argument not only is incorrect but is the reverse of what actually happened.

When faced with the choice of linking up with the Soviets or plugging into the American economy, what sane Central American leader would choose the former?

There were several motives for U.S. aid to Taiwan from 1950 to 1965, of which the least controversial was sustaining a strong Nationalist military posture vis-á-vis Communist China. By 1956, however, U.S. aid objectives gradually shifted from military strength to economic growth. Reflecting the conventional wisdom of the time, Taiwan's development strategy was to use government aid funds to build infrastructure (power, transport, communications), foster agriculture, and develop human resources. Industrial development was to be left in the hands of private enterprise.

Though designed to benefit private enterprise, the effect of U.S.-financed investment in "social-overhead capital" was to damage private enterprise by diverting scarce resources away from it. Statistics show that private-sector gross investment in fixed capital formation in Taiwan fell from 56 percent in 1954 to 41 percent in 1958. From 1951 to 1963, the public sector accounted for 48 percent of total Taiwanese net domestic investment—and U.S. capital assistance accounted for 80 percent of that figure.

Rather than create a model for capitalistic development, as intended, it became obvious by the late 1950s that government-to-government aid was creating a strong socialist state in Taiwan that was suffocating the private sector. This was one of the main reasons Washington wisely chose to discontinue its aid to Taiwan.

An equally important purpose of U.S. aid to Taiwan and Korea during the 1950s was general economic assistance. But this assistance became an important factor in sustaining the protectionist policies of the Nationalists in Taiwan during the 1950s.

The Nationalists had rejected an export-oriented, free capital-import program because they saw it surrendering Taiwan's future development to private firms and foreign interests. Autarkic economic policies, however, did not bring independence. They brought the opposite. By running the economy into the ground, protectionism forced Taiwan to depend increasingly on the United States for general economic assistance. The Nationalists' fear of dependence on private foreign firms thus led to the reality of "aid dependency" on the United States. In the final analysis, the Nationalist government realized that only the prosperous are truly independent.

It is sometimes argued that U.S. aid was vital in stabilizing Taiwan and South Korea because it signaled American willingness to stand firm against communist aggression. This supposedly gave the Taiwanese and South Korean economies their attractiveness to private investment. In fact, however, foreign and domestic private investment did not take off until the governments of these countries changed their policy orientation from government-led growth and reliance on foreign aid to more emphasis on private-sector growth. Korean per capita GNP, for example, grew at an annual average rate of 1.9 percent during this period, compared with figures three times that magnitude after both aid and government size in Korea were scaled down in the 1970s.

In short, so long as generous U.S. aid was forthcoming, Taiwan and South Korea could forgo private-capital import and export promotion for foreign-exchange purposes. But when the United States discontinued its aid, the generation of foreign exchange by the private sector became critical. It was not mere coincidence that both countries radically altered their domestic economic policies from import substitution to export-led growth in the face of the U.S. aid cutoff. It was a case of cause and effect.

Does Wealth Make a Difference

It is sometimes argued that America's strong suit may lie in economic aid because this country is richer than the Soviet Union. That the United States is a much richer country than Russia is, of course, beyond dispute. What can be disputed, however, is

the value of the greater wealth of the United States in attempting to combat Soviet influence in the Third World.

There would appear to be a natural affinity between aspiring and actual Third World totalitarians and Moscow. The former want power, not wealth, and Moscow can help supply the means to acquire and keep power—at a price. The greater wealth of the United States has proved itself of limited utility in trying to pry Third World totalitarians away from the Kremlin. Economic aid simply does not have the allure many think it does.

Moreover, just because the United States is richer than the Soviet Union does not mean that U.S. leaders have fewer economic resource constraints on their giving of economic aid. The fact that the United States is a real democracy puts it at a substantial disadvantage to the Soviets in the use of economic aid for strategic purposes. In both the United States and the Soviet Union, there is a trade-off between the amount of resources that can be put into economic aid and that available for other uses—for example, the satisfaction of consumer needs and social services. This is the basic law of economic scarcity which no country—communist or capitalist—can repeal.

In a totalitarian system, the allocation of resources is made by a small group of men, operating in secret. If a consensus exists among these men to put resources into imperialistic adventures, nothing and no one can stop them. The amount of resources the U.S. government can divert to combat Soviet imperialism, however, is limited by public tolerance of the anti-imperialistic measures. Historically, public tolerance for economic aid in this country has been rather low. Thus, even though the U.S. economy is more productive than that of the Soviets, U.S. leaders work under more severe economic resource constraints than do Soviet leaders.

American democratic traditions put the United States at a comparative disadvantage to the Soviets in the use of economic aid for strategic reasons in another important respect. When economic aid is given for strategic reasons, its purpose is to create a dependency relationship between the donor and aid recipient such that the aid recipient is made amenable to manipulation by the donor country. Potential for manipulation of aid recipients by the United States, however, is limited by the influence that friends of the aid recipient can have on Congress and in the White House through the democratic process.

The relation between Israel and the United States is a case in point. The United States gives more economic aid to Israel than to any other country. There is also a large, politically active, well-organized Jewish community in the United States that has made economic aid to Israel something of a "sacred cow" in Washington—the politician that dares oppose it faces certain and substantial retribution.

This has not been good for the United States and it has not been good for Israel. From the point of view of the United States, its foreign aid to Israel has not given it the leverage over Israel's foreign policies it would like to have, and should get, given the amount of money the United States has put into Israel. From Israel's point of view, the economic aid has allowed successive Israeli governments to follow ruinous economic policies, which have devastated the country's economic base at a time when a strong economy is badly needed. A country that spends almost 50 percent of its public budget on defense cannot afford the elaborate welfare state Israel has been able to finance because of the economic aid it receives from the United States. Instead of making Israel strong, U.S. open-ended economic aid has made Israel into the "Sweden of the Mediterranean."

Does the Cuban lobby in Moscow (they must have one) possess the same political clout as that of the Israeli lobby in Washington? It is highly unlikely that the Cuban tail wags the Soviet dog, for several reasons. As noted above, in a decentralized political system such as that of the United States, a client state can exert an influence over the most important decisionmakers by appeals to public opinion and direct contacts with lawmakers and other influential persons. In a totalitarian system, these avenues of influence do not exist.

Second, Castro's ideological base is so intrinsically anti-American that his bargaining power with the Kremlin is virtually nil. Can anyone seriously imagine Castro trying to hold up the Soviets for more economic aid by threatening to adopt pro-American policies? Yet America's clientele in the Third World consistently threaten the United States that if it does not give—and give generously—they will turn to the other superpower for assistance.

For example, several noncommunist Latin American countries—Ecuador, Colombia, Uruguay, and Argentina—are reported to be warming up to Castro, who in March 1985 said that the Latin American foreign debt of $360 billion simply cannot be paid and must be canceled by U.S. banks. The message the debt-ridden Latin American governments are sending to Washington is obvious enough: Unless you bail us out with economic aid on favorable terms, we will tilt our foreign policies toward Havana and Moscow. Because the ideological orientation of these countries is not intrinsically anti-Soviet, their threat to change political coloration has a credibility in Washington that Castro lacks in Moscow.

Playing to Our Strength

Those who argue that America's comparative advantage in competing with the Soviets in the Third World lies in economic aid are correct in only one respect: that the strength of the United States lies in its economy, and that this country somehow must learn to turn its enormous economic strength to its strategic advantage if it is to impede the spread of communism among the poorer countries. The truth of the matter is that the United States probably has spent too much time and too many resources containing communism, and too little time and resources spreading capitalism. The marketplace is this country's strongest institution, and the United States must learn how to use it to help the poorer countries of the world develop a vested interest in the capitalistic system. Once capitalism spreads, communism will contain itself.

The best way the United States can spread capitalism is through deeds, not words. The poor countries of the world already have had too many lectures from

The greater wealth of the United States has proved itself of limited utility in trying to pry Third World totalitarians away from the Kremlin.

the richer nations about the benefits of free trade, and too few examples of it. Access to the vast American market is what these countries need—and should get—to build their allegiance to a capitalistic system. American protectionism is as subversive to U.S. security interests as Soviet cooperative forces.

That access to the American market is preferred to American aid by at least one of our most important allies recently was made clear by Turkish prime minister Turgut Ozal. One look at the map reveals Turkey's strategic importance to the United States. Not only does it guard frontiers with the Soviet Union, Bulgaria, and the straits from the Black Sea into the Mediterranean, but it also shares borders with Iran, Iraq, and Syria.

On a recent visit to Washington, according to a dispatch in the *New York Times*, "Mr. Ozal said Turkey was 'not fairly treated' in comparison with the two top beneficiaries of American military aid, Israel and Egypt, the only countries that receive more aid than Turkey." The Turkish prime minister, however, is not seeking additional military aid. "He stressed an easing of 'American protectionism' rather than more military aid. He said protectionism limited the export of such Turkish products as textiles and steel goods."

The Turkish prime minister's comments make it clear that a link exists between increased American imports on the one hand, and the fight to contain communism on the other. Many U.S. allies would prefer trade to aid but settle for aid because that is what the U.S. government offers them. When U.S. Secretary of State George Shultz traveled to Turkey in March 1986 to renew American military-base rights there, he offered aid but was told by Sakip Sabanci, chairman of the Turkish Industrialists' and Businessman's Association, to "assist us not by aid, but by facilitating our export performance." Indeed, Turkey went further than mere rhetoric on this point: it explicitly linked the renewal of the American military-base rights to major trade concessions by the United States. Shultz, formerly of the free-market University of Chicago, left Turkey furious.

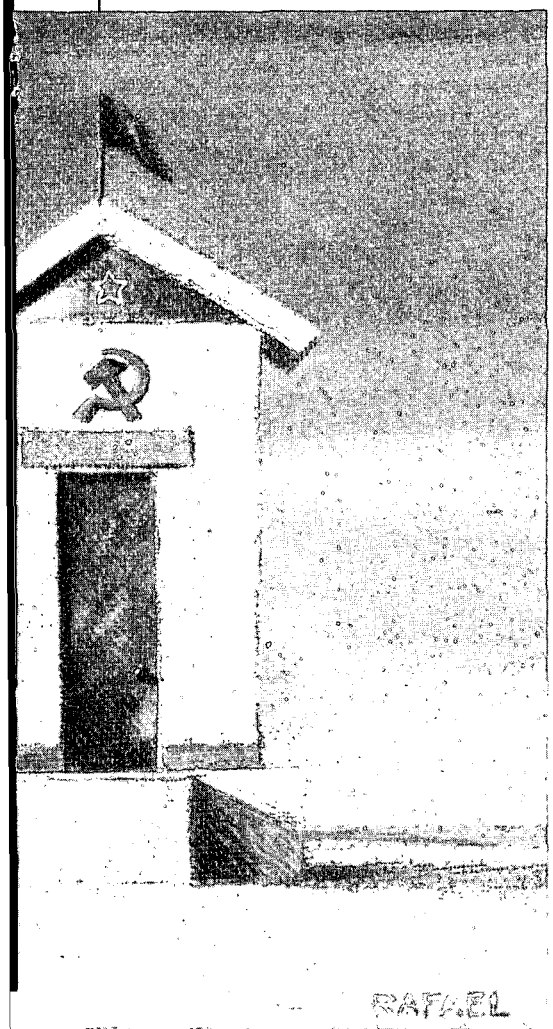
By increasing the economic resources available to foreign governments, economic aid increases the power that government—and politicians—have over the lives of ordinary citizens in recipient countries. By increasing the exports of the private sector, however, trade creates ties to, and vested interests in, the capitalistic system. The issue of "trade versus aid," in fact, boils down to whether there should be political or market solutions to economic problems. Unfortunately, the U.S. State Department traditionally has thought more in terms of buying the allegiance of public officials in Third World countries with economic aid than in terms of creating an allegiance on the part of the mass of peoples in these countries to an economic system that has the potential to make them "communist-proof."

The conflict between these two objectives has become a particular problem for the Reagan administration, whose capitalistic ideology has clashed on several occasions with the State Department's business-as-usual policies. The result has been an uncomfortable attempt to square the circle by making U.S. economic aid conditional on the aid recipients undertaking certain reforms designed to make their economies more compatible with capitalism.

This confused policy is not likely to work. So long as the Third World country knows the United States is using economic aid to compete with the Soviet Union, "conditionality" will not be effective. The Third World country simply will take the aid and promise to make the reforms at some future date; then it breaks its promise, claiming severe domestic opposition to the reforms. When the United States counters by threatening an aid cutoff, the aid recipient responds with a threat of its own: "If you cut the aid, we will go for help to the Soviets or to one of its proxy nations." Finally, we decide the aid must be continued for national security reasons. As noted above, several Latin American nations already are using a variant of this scenario to get Washington to bail them out of their enormous foreign debt.

But even if U.S. State Department officials can avoid being sandbagged by the "switching allegiance" threat, the policy of giving economic aid in the name of capitalism does not create an allegiance to capitalism in the Third World country—it creates the opposite. Assume, for example, that the Third World country maintains foreign-exchange controls, and aid is made contingent upon their removal. In and of itself, the removal of exchange controls makes the private economy more efficient—that is, after the reform, a given amount of economic resources in the private sector can be expected to produce more goods and services than before the reform.

The price of making the private sector more efficient in this instance, however, is to increase the economic resources available to government. Consequently, the new jobs created by the aid-cum-reform package will be public-sector jobs, not private-sector ones. Moreover, politicians will determine who gets how much of the aid. Thus, while the poor country can be presumed to be better off with the reform measure tied



to the aid than with the aid alone, conditionality in no way alters the conclusion that economic aid, tied or untied, increases the power and influence of politicians and creates allegiances to government rather than to the private marketplace.

Trading Communism Away

Instead of playing a game in which the Soviets can compete, and compete effectively—buying foreign leaders with economic aid—we should select a game to play where the Soviet disadvantage is so great as to guarantee a U.S. victory. There is no way, for example, that the U.S.S.R. could possibly match the economic impact of the United States granting unlimited access to its vast market. The United States could use trade against the Soviets as they use aid against the Americans. Let the United States declare war on communism in Central America, for example, not by sending in American troops but by forming a common market with all countries in Central America who want to participate.

The United States should agree to eliminate all obstacles to imports from any Central American country that agrees to reciprocate by removing all obstacles to U.S. exports. A "common market" with the Caribbean Basin countries would help fight communism in four important ways: (1) It would increase the exports and economic well-being of the Central American countries. (2) It would create an allegiance to capitalism in a part of the world where the economic process has been dominated by the political process for too long a period. (3) It would improve the efficiency of the Caribbean Basin economies by imposing more-liberal trade policies upon them. And (4) it would place Uncle Sam in a new light.

There is no way the U.S.S.R. could possibly match the economic impact of the United States granting unlimited access to its vast market.

Americans should not underestimate the resentment many Caribbean people feel toward the United States. A common market with the Caribbean Basin would help ameliorate that resentment by showing the people of that region that the United States practices the competitive ethic it preaches. Economic aid, on the other hand, reinforces Uncle Sam's image as a rich bully, all too willing to use its enormous wealth to manipulate others for its own selfish reasons.

When faced with the choice of linking up with the Soviets or plugging into the American economy, what sane Central American leader whould choose the former? Even Nicaragua should be asked to join a U.S.-Caribbean Basin Common Market. Should it join, the pressures of free trade would dampen Sandinista control over the economy. The common market would have rules, and Nicaragua would have to conform. Moreover, anti-American paranoia would sell at a discount rather than a premium in Managua if both contries belonged to the same common market.

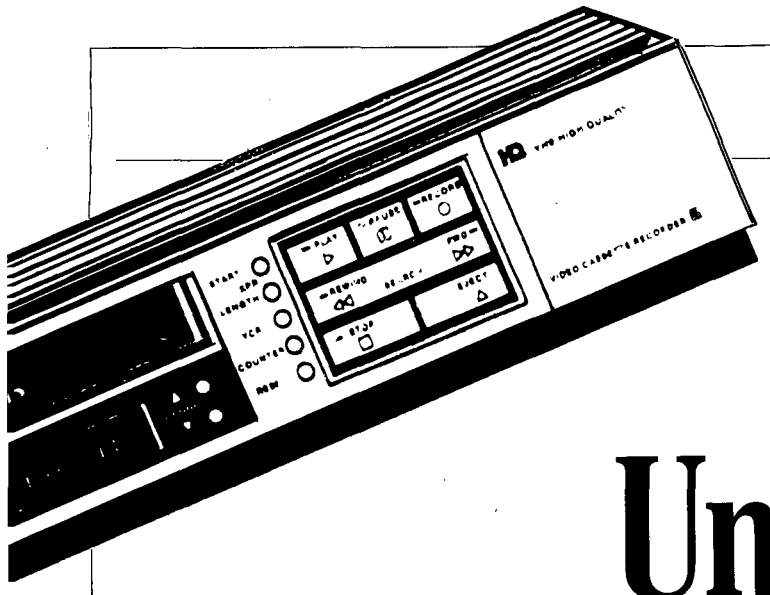
For these reasons, it is doubtful the Sandinistas would join a Caribbean Basin Common Market even if asked. But this, too, would be good; a refusal to join such an enterprise would help isolate the Sandinistas in their own region. A U.S.-Caribbean Basin Common Market is the type of initiative in which the Sandinistas lose no matter what they do.

Objections to the formation of a U.S.-Central American Common Market can be expected to come from protectionist interests in the United States that fear the increased competition from Central American exports. Countries such as El Salvador, Guatemala, Honduras, and others are rich in labor and thus could be expected to be efficient in the production of such labor-intensive products as textiles, apparel, toys, and plastics. American labor and management in these industries undoubtedly will use their considerable political clout in Washington to try to sabotage the initiative.

Under normal circumstances, the protectionists would have a good chance to succeed, since the opponents of protectionism usually are not well organized and are scattered throughout the population. But the linkage of the Common Market to combating the communists in Central America gives the plan a much broader base of political support than it otherwise would enjoy. The strategic importance of the proposed U.S.-Caribbean Basin Common Market might be able to defeat American protectionists, just as it might be able to defeat the Central American communists.

A Caribbean Basin Common Market is one example. The general point is that in countering Moscow's moves in the Third World, Washington must develop tactics and strategies appropriate to America's institutions, values, and strengths—not simply imitate the tactics of our rivals. America's strong suit is its economy, and this country must learn how to use its enormous economic power to improve the material standard not only of its own citizens but of foreigners as well. Other things being equal, the better off our neighbors, the more secure they—and we—will be. ◻

Melvyn Krauss is a senior fellow at the Hoover Institution at Stanford University and a professor of economics at New York University.



by George Gilder

Uncle Sam Wants Your VCR...

...and your camera, your car, the shirt off your back—all in an insane war on imports.

Is it Rambo leaping forth from Japanese screens and onto the streets of Tokyo? Or Bruce Springsteen in a "Born in the USA" rant?

No, it's just Lee Iacocca again, huffing and puffing his macho American theme and denouncing the "closed society" of Japan—where he has sold more than half a million books and bought tons of autos and engines from Mitsubishi.

Is it a U.S. cast for the Kabuki theater?

No, it's merely the American Chamber of Commerce putting on a show in Tokyo early in 1986.

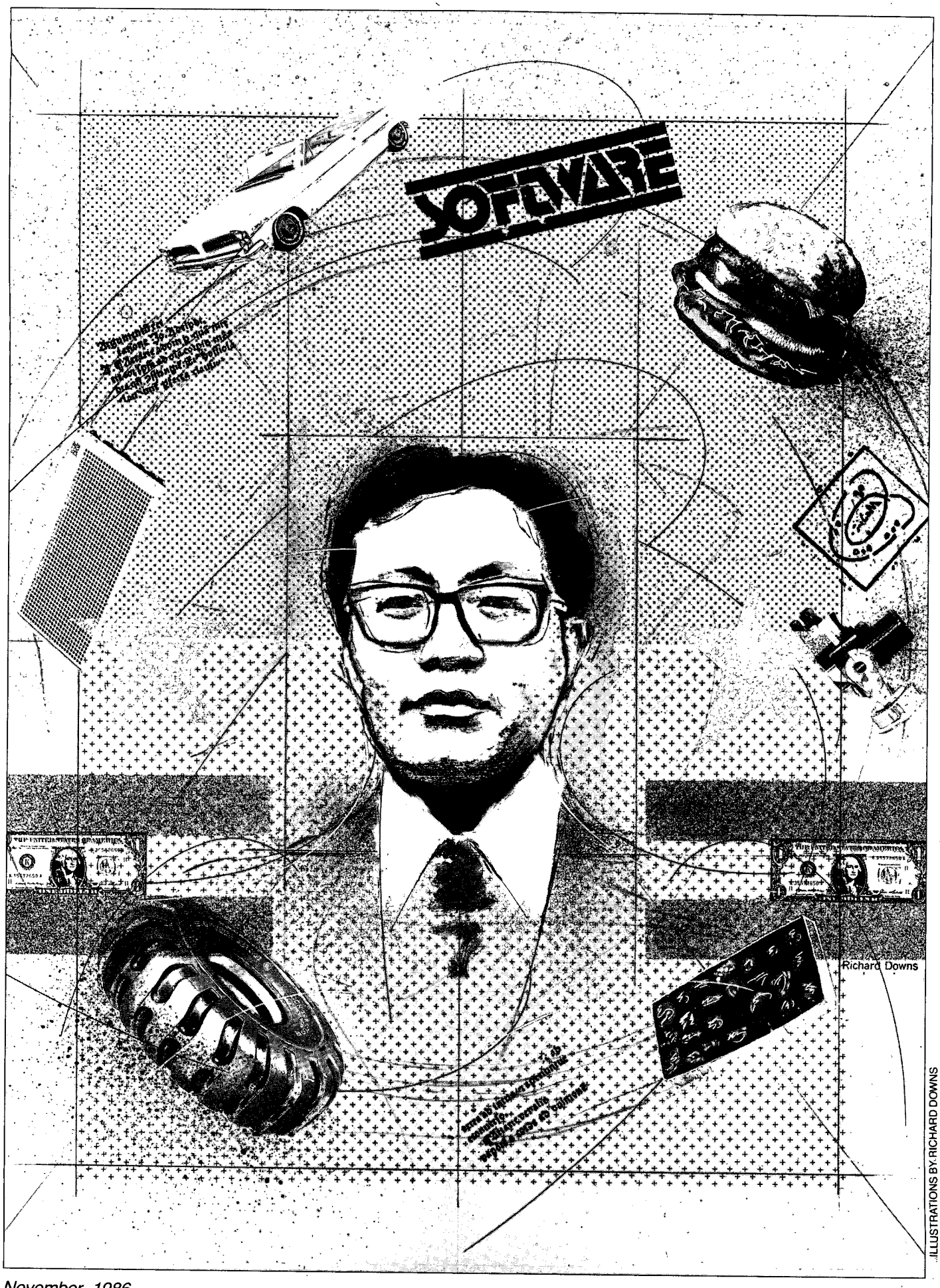
Is it Conan the Barbarian, bursting out of a Shinjuku billboard?

No, it's just Sen. John Danforth (R) of Missouri, the swashbuckling preacher of "reciprocal trade." With a heavy note of Hollywood menace, he declared at the Chamber's conference: "In 1984, Japan exported more than 80 percent of its entire production of cameras, watches, VCRs, and microwave ovens. These Japanese products have two things in common: They are attractive to consumers everywhere and they are totally unnecessary."

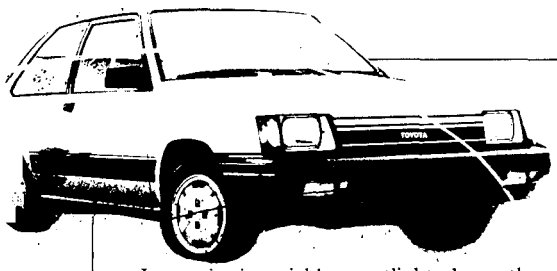
Is it the madman from "Death Wish 3"?

No, don't worry, it's merely Danforth's Missouri colleague, Sen. Tom Eagleton (D), chiming in: "We lost our shoe industry, we are losing our textile industry," and now, he implied, we are losing not only our manufacturing but also our minds. He, too, threatened new barriers to Japanese goods and exalted the noble inanity of a balance of trade.

Everywhere, the trade-balance refrain is repeated. Clyde V. Prestowitz of the U.S. Department of Commerce issued dire warnings about the magnitude of the U.S. trade imbalance—the goods we imported in 1985 were worth nearly $150 billion more than the goods we exported. Without trade restrictions, he concluded, the United States may go bankrupt. Just like that.



ILLUSTRATIONS BY RICHARD DOWNS



Japan is invariably spotlighted as the villain. As Sen. Lloyd Bentsen of Texas (D) puts it poetically: "The Japanese are ripping out the heart of U.S. industry and destroying it piece by piece." Other analysts write of Japan's "deep cultural resistance to foreign goods" and cite polls showing that Japanese citizens prefer to buy products made in their own country. Unlike Americans?

Winston Churchill once wrote, "Man will occasionally stumble over the truth." An American businessman—or even an American politician—disembarking from a Japanese Airlines *747* at Narita and taking a bus into the Shinjuku *Hyatt Regency* across the street from the Tokyo *Hilton* and down the street from *American Express* and *Kentucky Fried Chicken,* passing Japanese offices full of *IBM* equipment and bookstores and newsstands selling diverse *American publications*, and finding friendly Japanese everywhere who speak *English* and an English channel on the TV, might pause to consider for a moment the contrary plight of a Japanese visitor arriving at Kennedy Airport in New York.

Might the American visitor—even the American senator—stumble momentarily in his insular assurance that Japan is hostile to American goods? Of course, Churchill added that having tripped over the truth, "most of the time [the man] will pick himself up and continue on"...perhaps to the auditorium, where he will denounce once again the closed economy of Japan.

A Japanese consumer shaving with his Schick, drinking a cup of Maxwell House before leaving for work, wolfing down honeydips at Mister Donut or a hamburger at McDonald's, getting a six-pack of Coca-Cola and a box of Kleenex at the 7-Eleven, signing his name with a Sheaffer, walking along the Ginza under a huge Hollywood billboard of Charles Bronson, on his way to Computerland in his new Levis, might be forgiven for wondering what the problem is.

Of course, he might not want Iacocca's overpriced "K" car, with the steering wheel on the wrong side. But he would sympathize with Danforth's assertion that "there is nothing wrong with the steering wheel on our beef." More beef imports would be fine with our Japanese consumer. Nor, he might add, after savoring a thimbleful of orange juice at the Okura for 1,000 yen, would there be anything wrong with access to more California citrus fruits. The Japanese do lead the world in purchases of American agricultural produce, including beef and oranges. But partly because of an island fear of food embargoes—and mostly because of the political clout of farmers (an Oriental peculiarity no doubt hard for Westerners to comprehend)—the Japanese consumer suffers from quotas on these products.

But, coming from a U.S. Congress that keeps Alaskan oil away from Japan and protects sugar beets "for reasons of national security," that imposes a special system of price controls on oranges and frequently acts to restrict beef imports from Argentina and Australia—and plans to subsidize American farmers by tens of billions of dollars during the next five years of supposed budget-balancing fiscal austerity—Senator Danforth might allow the Japanese their political crotchets. After all, when all is said and done, the average Japanese citizen, in his "closed society," purchases some three times as much U.S.brand-name merchandise in proportion to his income—and two times as much in absolute terms—as the "open-door Americans" buy Japanese.

Achievement of a trade balance is possible only by ripping and tearing at the fabric of international commerce.

The fact that Americans are more resistant to foreign goods than the Japanese never penetrates to the precincts of Washington. With American politicians raving about a trade war, with Speaker of the House Tip O'Neill threatening "to get the Japanese and get 'em good," and with the normally genteel author Theodore White, shortly before he died, invoking memories of Bataan and Pearl Harbor in an explanation of Japanese export policy, it is the Japanese—not the Americans—who can plausibly charge xenophobia. But it is the Americans who claim to be aggrieved, losing jobs, suffering the slings and arrows of Japanese industrial policy, crucified for their belief in "free trade."

In a speech in March, economist Lester Thurow depicted the deficit in the trade account in harrowing terms and compared the U.S. economy, in some detail, to Mexico's currently precarious situation. It seems the trade imbalance has made the United States a "net debtor," and soon enough we will slide down a slippery slope, with deputations of grim reapers from the International Monetary Fund trooping over to the U.S. Treasury, demanding adoption of austerity policies: devaluations, higher taxes; a zero-sum society at last. One pictures wetbacks swimming south, led by Senator Bentsen and Professor Thurow.

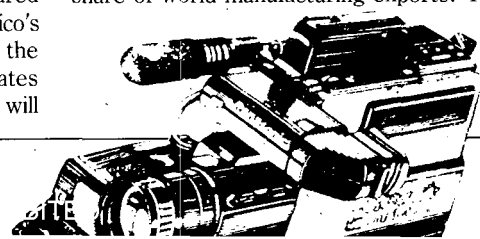
Welcome to wonderland: the fantasy world of American politics and economics. It would not be a serious problem but for one uncomfortable fact. The underlying premises of this world of fantasy are accepted in economics classes and political conferences around the globe, from Great Britain to Japan and from MIT to MITI.

Everywhere the dismal science of macroeconomics casts its Keynesian shadow, intelligent people begin babbling in tongues; they prattle in terms of gigantic numbers—gross national products, budgetary deficits, money supplies, and aggregate demand—as if these raw quantities captured the essence of economic life. They speak of balancing exports and imports as if that goal embodied some cardinal virtue in itself, like balancing our diets or our tires, or as if the balance of payments constituted the final scorecard of an international tournament of trade. Beclouded with these illusions, world capitalism is now stumbling toward a gigantic trap of austerity programs, monetary restrictions, protectionist barriers, and tax increases that promise to enforce some fantasy of "balance" but in fact would lead to economic breakdown and decline.

The pursuit of trade balance originated in the dim days of old, when a deficit would dictate a laborious transfer of precious gold bullion on clipper ships across treacherous seas. Today, however, capital bounces off satellites around the globe in split seconds. A country with attractive capital markets, declining tax rates, and rapid economic growth will tend to run a surplus in its capital account (people will want to send it money) and a deficit in its trade account (its people will be able to buy more than they produce).

The new American tax rates, once they are fully installed, will make the United States a mecca for capital and growth. But unless they are copied by our competitors, they may also lead to a continued imbalance of trade. Should we be worried?

The fear for the future of American manufacturing is overwrought. In recent years, the United States has increased its share of world manufacturing exports. The



recent economic boom showed a recovery in manufacturing some three times as fast as in services. And while employment in manufacturing, as in farming, has declined as a share of total employment, manufacturing has maintained its share of U.S. economic activity at just below 25 percent for the last 20 years.

In fact, a trade deficit may well be a symbol of a healthy economy. Far from destroying jobs, it may create them. Certainly, on the evidence from the United States, a better case could be made that trade *surpluses* destroy jobs, particularly in manufacturing.

Over the last decade, for example, the United States ran its largest surpluses in manufacturing trade in the years 1979, 1980, and 1981. During this period the country lost a total of 1.43 million manufacturing jobs. Over the following three years, on the other hand, the United States ran a manufacturing trade deficit, largely with Japan, of approximately $160 billion. But overall employment soared by 8 million jobs, and manufacturing employment grew by over a million.

By contrast, Japan, with its 1984 trade surplus of $35 billion, created, proportionate to population, less than 10 percent of the new jobs created in the United States in that year. In 1985, Japan's trade surplus rose again, and this time the United States created proportionately four times as many jobs as Japan. In fact, throughout the entire postwar era in the United States, there has been a strong correlation between trade deficits and employment growth.

Nonetheless, nearly every major economist will tell you that "net exports" contribute to something called "aggregate demand" and thus enhance economic growth and job creation. This Keynesian maxim leads to the idea that industrial policies—specifically, government spending to promote exports or to foster investment in export-oriented firms—are fiendishly effective. Using Keynesian models, government policymakers around the globe—from West Germany to Washington, D.C.—see trade surpluses as a testimony to moral rectitude and job creation.

In order to understand why there is no special virtue in a trade surplus, it is necessary to transcend the idea that economic growth is somehow driven by "demand." A supply-side economist will insist that buying power—"aggregate demand"—is impotent to impel growth. What matters is the willingness and ability of particular workers and entrepreneurs to expand and improve their productive efforts and the willingness of new producers to enter the economy.

An American entrepreneur has developed a revolutionary new voice-actuated word processor, beating out IBM, AT&T, and the entire Japanese electronics industry.

On the most basic level, the very concept of people as "consumers" or demanders is deceptive and patronizing. Income cannot long exceed output. Consumption springs not from a willingness to spend money but from a willingness to spend effort. Economic policy must focus first, last, and always on enhancing the incentives and capablilities of producers.

Imports often increase those incentives and capabilities. People do not produce for "money." They work in order to be able to buy goods and services. On the margin, where the economy grows, they very often work to buy foreign goods. Contrary to Senator Danforth's charge that VCRs and other Japanese imports are "totally unnecessary," they are probably the most motivational items in the U.S. economy today. They increase the marginal value of American incomes and enhance the productivity and incentives of American workers.

Similarly, imports of capital equipment enhance the ability of American workers and entrepreneurs to expand their efforts. In earlier decades, equipment flowed disproportionately from the United States to Japan's semiconductor and automobile industries. Thus a vast imbalance of trade in capital goods made possible the rise of those Japanese industries. Now, the balance has shifted, and the availability of ingenious new capital equipment from Japan enhances opportunity in the U.S. economy.

Far from hurting the sales of U.S.-made capital equipment, imports of capital goods require and enable the use of complementary capital and labor. Economic progress and opportunity in the United States, from Detroit to the Silicon Valley, would slacken drastically without the availability of foreign equipment and other supplies. For example, General Motor's futuristic Saturn project, designed to produce a new generation of cheaper and better automobiles, could not succeed without Japanese machine tools and other devices. From Fujitsu-Fanuc's robots to Kyocera's ceramic chip packages, imports stimulate the use of U.S. capital equipment and enhance the real competitiveness of the U.S. economy.

Equipment producers in this country should not try to "catch up" with Japan. They must try to create *new* capital goods that respond to the needs of the future. If instead they afflict their U.S. customers with second-best gear, they merely spread the problems of the producers of capital goods to the producers of final products.

If the U.S. senators want something to worry about, they should focus not on trade balance but on trade volume—not on the brisk and valuable exchanges of goods and capital between the United States and Japan but on the general stagnation of world commerce, including trade between the United States and Asia. In a recent cover story, *Fortune* magazine actually presented the slowdown of the Japanese economy this year as a "rare opportunity for the U.S." But a slowdown in Japan and Asia *reduces incentives* for real productive effort in the United States. Trade is not a zero-sum game, and its contraction is bad for everyone.

An obvious inhibition on the volume of trade is the widespread resort to protectionism in an attempt to achieve trade balance. Equally destructive is erratic monetary policy based on pursuing deceptive aggregates such as the so-called money supply. At present, with all producer and wholesale price indexes showing worldwide deflation, monetary policy is too tight in all industrial nations. In a perverse effort to refight the war against inflation while prices plummet, government monetary officials in the leading industrial nations are risking a major deflationary crisis.

Not only is the price of money too high around the globe, so is the price of government. The price of government is called the tax rate, and tax rates are the most important single price in any economy. If tax rates are kept too high, the entire system suffers from this extortionate cost of production, and trade volume declines. The upward drift of real tax rates around the world is the chief long-term cause of the decline in global commerce and the chief cause of America's export problem.

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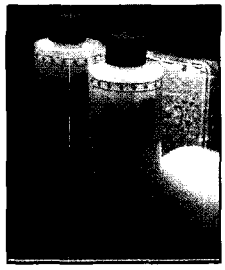
FOOD FOR WOOD



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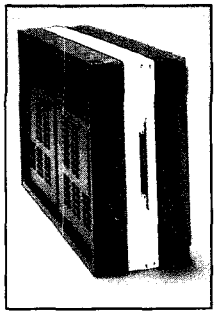
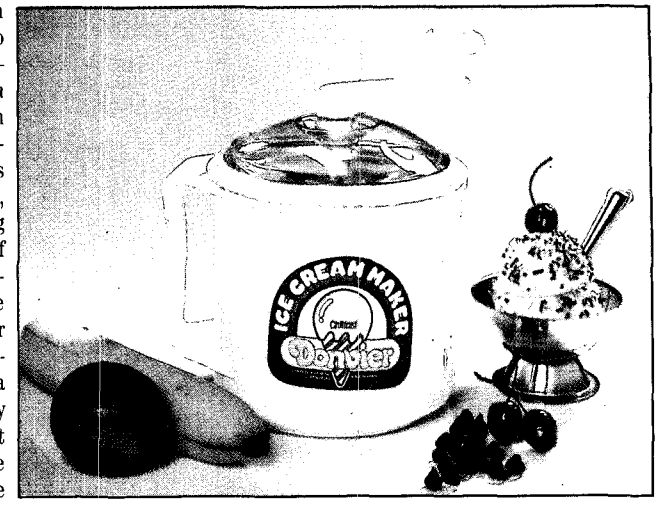


Blending convenience with practicality the Versabox allows you to easily carry groceries, laundry essentials, picnic supplies — anything. Converts in seconds from its flat storage size of less than 3" high, to 10"x20"x12" (just slide up frame, snap down sides). Side grip handles make carrying large loads a breeze. Made of lifetime polypropylene with stainless steel pin hinges the Versabox **can safely hold up to 85 lbs.** and will prove its worth in garage, garden, basement or car. Since these crates stack whether open or folded flat, you'll want to order several. Available in red, blue, and white. Versaboxes cost **$17.00** ($4.95) each. Red #A1586RE; White #A1586WH; Blue #A1586BL. Set of 3 in assorted colors (red, white & blue) **$45.00** ($7.95) #A15893. Optional set of four casters insert into bottom for added roll about mobility. **$7.00** ($1.95) #A1587.

GOURMET ICE CREAM MADE EASY



Homemade ice cream is wonderful, no argument. The sentiment is so American even Thomas Jefferson shared it. But homemade ice cream is typically a lot of work, what with chopping ice, mixing in layers of salt, cranking away forever. The Donvier Ice Cream Maker is another story entirely. Its special Chillfast pot has a refrigerant permanently sealed in its walls. Just store the pot in the freezer. When you're ready pour in the makings of ice cream, turn the handle a few times, and wait. A few more intermittant turns and 20 minutes later you have delicious natural ice cream with the distinctive fresh flavor, smoothness and lightness of homemade. No salt. No ice. No electricity. No hassle. All the fun of homemade ice cream without the trouble. The whole family will enjoy making naturally flavored sherbets, icy colas, low calorie treats. Comes with tested recipes. Easy cleanup too. Donvier Chillfast Ice Cream Maker will give you a gourmet reputation with a minimum of effort. Pint capacity, **$36.00** ($4.95) #A1536; Quart capacity, **$49.00** ($4.95) #A1537.

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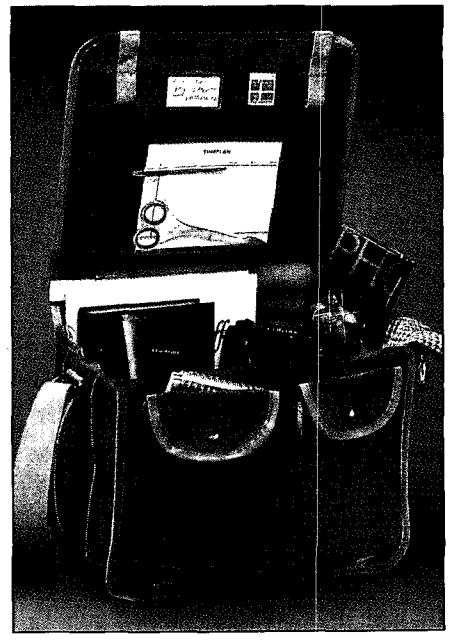

This oversize bag is an overwhelming success with photographers, artists, students, musicians, dancers, opera singers, nuns, poets, duck hunters, cyclists, plumbers, teachers, reporters and travelers...because it's a versatile labyrinth of roomy pockets. Made of waterproof canvas that wears like iron, the bookbag has an unusual zipper design that enables the bag to expand to double its normal width — to a full 8 inches. It also has two outer pockets in front and a large back pocket. An adjustable 2" wide strap makes the burden easier. Choose grey #A483, brown #A484, tan #A808, black #564. **$29.00** ($4.95).

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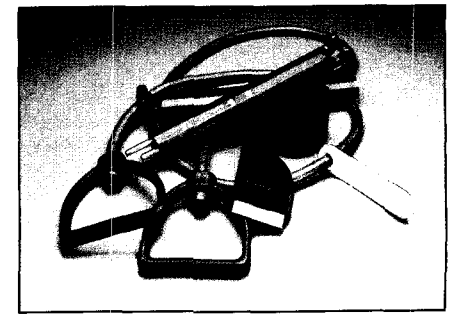

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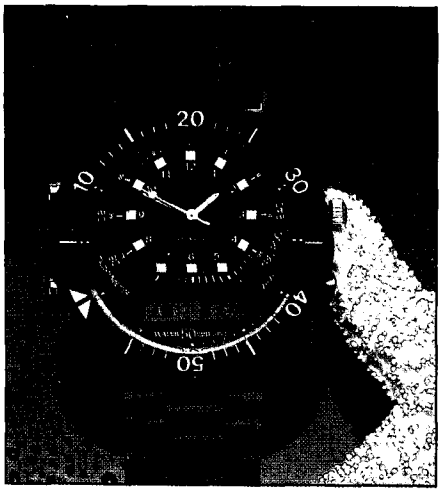
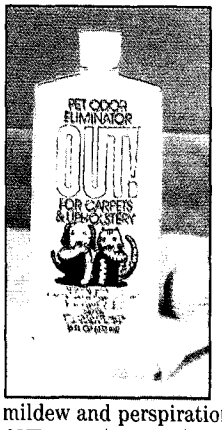
DIVER'S WATCH AT A ROCK-BOTTOM PRICE



The first thing to amaze you about this custom chronograph is its array of useful features. But the real surprise is the whistlestop price: under $50. The Diver's Watch is rated waterproof to 5 atmospheres (over 150'). The movable bezel, case and band are all "black chrome" plated in a rugged matte finish. Two sunken faces provide fully independent digital and analog timekeeping, so you can set one face to home time and one to travel time. Date, day and month display; alarm; 1/100 second chronograph with lap timer; choice of hourly chime, 12 or 24-hour format. Precision Japanese movement. 1-yr. warranty. **$39.00** ($4.95) #A1490.

ODOR ELIMINATOR



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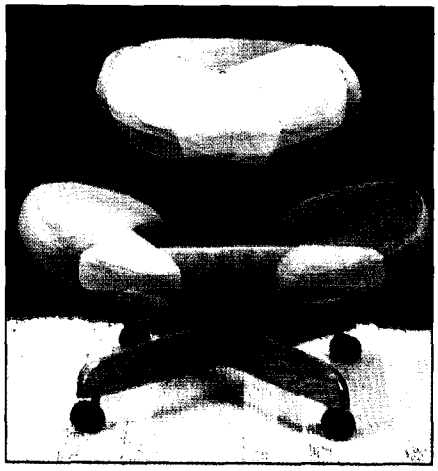

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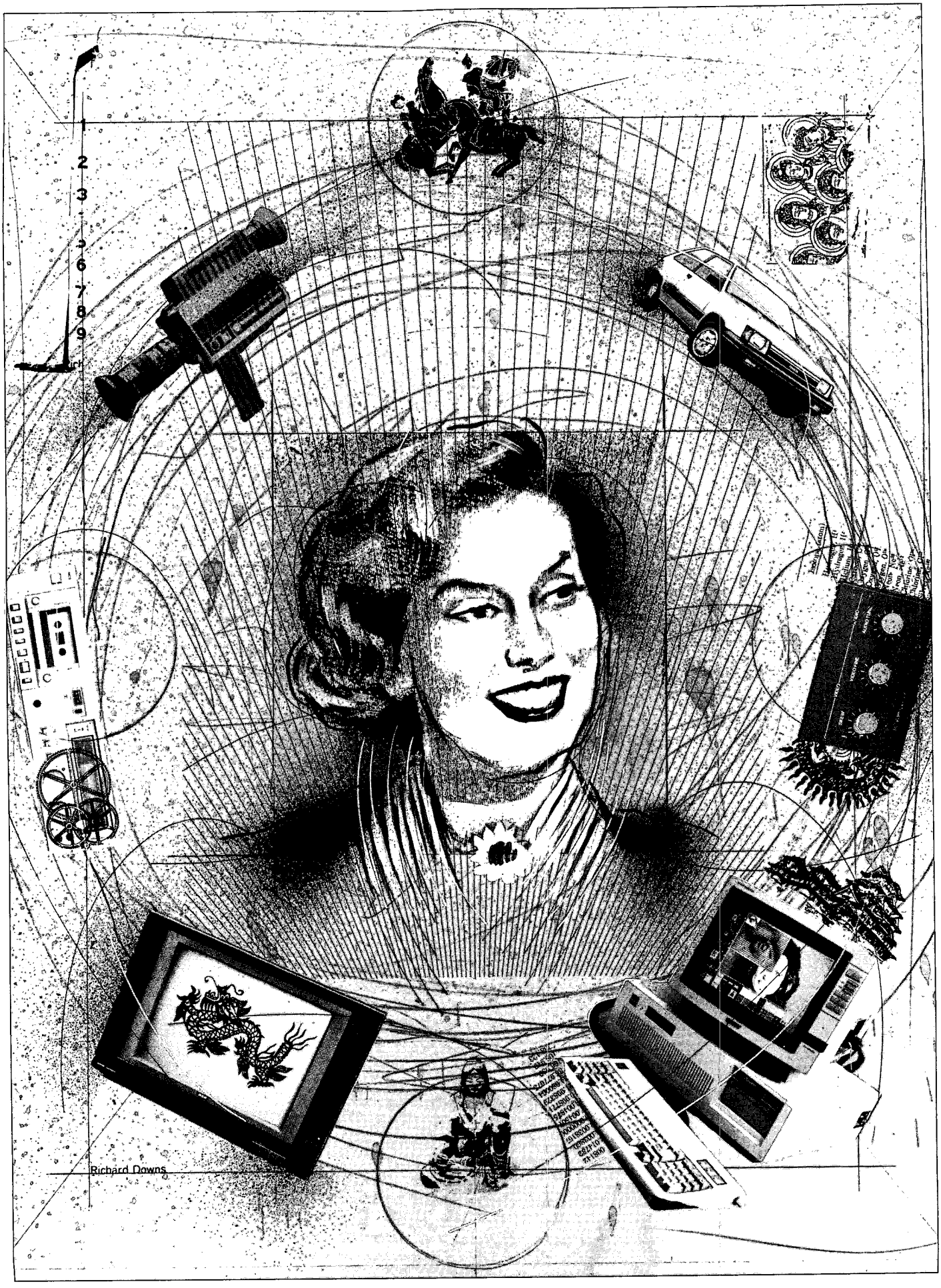

Richard Downs

A further source of the declining volume of trade is management timidity and myopia. As in a country, so in an industry, leaders must be willing, over time, to push down price and increase value. When prices and profit margins are dropping fast, markets tend to expand as producers pursue high-volume, low-price strategies. With larger in volumes, customers improve their knowledge of the good, use it more, and invent more applications for it, and its real value rises as its price drops.

With prices dropping and performance improving in the leading sectors of an economy, real incomes move up and create demand for other products and other industries. Work and investment incentives rise. Workers and entrepreneurs create new jobs and opportunities. Imports surge. This is real economic growth.

But when prices stop dropping—or the critical dimensions of value and quality stop rising faster than price—all these positive trends are reversed. In the end, trade slows and firms turn to politics to achieve what they cannot attain in the marketplace. At business conferences, there is more talk about "industrial policies" than about industrial products.

A key problem at present is automobiles. The industry uses commodity materials whose costs are presently declining, and it is turning to new technologies with rapidly improving ratios of cost and performance. So automobile prices should be following the fast-sinking trajectory of the experience curve, which dictates a 20 to 30 percent decline in costs for every doubling of cumulative unit sales. Instead, in this highly politicized industry, auto prices are coasting along comfortably with the consumer price index, which itself radically exaggerates real monetary inflation. By allowing real prices to drift upward, the auto industry is rapidly becoming part of the problem of international stagnation.

These rules of price and trade apply to all industries. The latest worry is that the United States is suffering from an influx of Japanese semiconductor chips. This is wrong. The Japanese semiconductors can save the industry by giving the American firms a vivid sense of competitive realities and by helping reduce prices in the computer industry, which is the key semiconductor market in the United States.

The semiconductor executives should have learnt from the experience of the automobile industry. The effects of protection weaker industries cascade through the economy and end up jeopardizing the strongest sectors. Thus "trigger prices" and other devices protecting the steel industry raised the costs of production for American makers of automobiles—as well as machine tools, construction gear, and farm equipment.

Soon, there arose demands for the protection of *these* industries, beginning with the car companies because of their political clout. And so we came to have various quota systems imposed on foreign automobile makers. But the results were not as wonderful as Lee Iacocca and his buddies envisioned.

When Japanese auto producers were prevented by quotas from going for large volumes at low prices, they moved up-market to sell smaller volumes of higher-priced cars. Rather than competing against the Americans at their point of weakness—and thus dramatically improving the range of value in the automobile market—the Japanese moved up to compete with the Americans at their point of strength. American purchasers sent more money to Japan, but they didn't even get more cars.

Americans are more resistant to foreign goods than the Japanese, but this fact never penetrates to the precincts of Washington.

In addition, since consumers didn't get more value at lower prices, they didn't have more money to spend on other products where U.S. producers excelled. They did not receive new incentives to work and save. Protection unnecessarily weakened the strongest parts of the U.S. economy in an attempt to save the weakest.

It doesn't take too much prescience to predict a similar outcome for chips. The labyrinthine new price-fixing agreement between the United States and Japan on semiconductor memories ironically penalizes the top U.S. memory producer, Texas Instruments, which fabricates its memory chips in Miho, Japan. It also penalizes U.S. computer firms that manufacture in the United States. Commodity memory chips such as DRAMs (Dynamic Random Access Memories) account for up to a third of the cost of computers. The new trade accord allows Japanese computer firms to acquire memory chips at half the cost that U.S. producers must incur. The final irony is that the agreement will fail to help American chip firms in any lasting way.

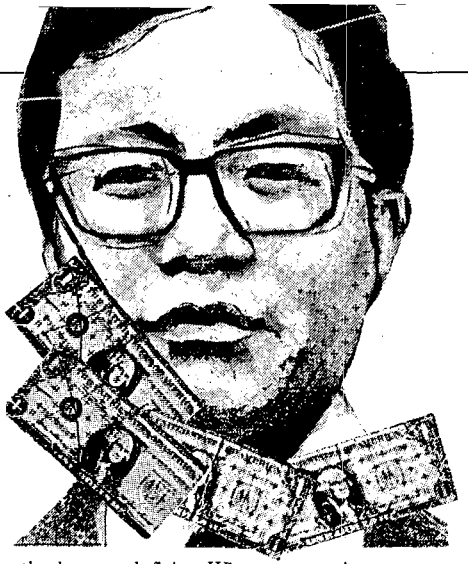
Diverted from commodity memory chips such as DRAMs, Japanese companies will focus on the less vulnerable parts of the U.S. industry. Not only are the U.S. semiconductor industry's best customers—the computer firms—hurt by such protection, so are the best semiconductor producers.

The preceding, three-year-long surge of chip imports from Japanese conglomerates does partly reflect U.S. inferiority to Japan in manufacturing disciplines. America is still a country that prefers lawyers to engineers, teaches more students social adjustment and sex education than physics or calculus, and double-taxes the returns to savings out of fear of "inequality" between the prodigal and thrifty. But these problems offer no reason for a dismal retreat to protectionism or government subsidies.

Although large companies are crucial to the production of commodity products, the ultimate sources of competitiveness and growth are startups pursuing new technologies. Leading business magazines continue to proclaim that the end of the line has come for small firms in semiconductors and computers, but in fact the last four years have seen more spinoffs and startups than any previous period in the history of electronics.

For example, a young American entrepreneur, Raymond Kurzweil, has started three companies to pursue his amazing inventions in artificial intelligence, including the leading-edge music synthesizer used by Stevie Wonder, a reading machine for the blind, and a revolutionary new voice-actuated word processor. This last device can take dictation at a 150 words per minute and recognize a 15,000-word vocabulary. In developing the word processor, which will be sold by Wang and Xerox for around $5,000 late this year, Kurzweil beat out IBM, AT&T, and the entire Japanese electronics industry. Because typewriters cannot accommodate the hundreds of Kanji characters, this technology has long been a supreme goal of leading Japanese conglomerates and government planners at MITI.

As time passes, such inventions and entrpreneurial efforts will revitalize trade between the United States and Japan. First, however, all this U.S. creativity may well *increase* imports rather than reduce them. By generating a stream of new inventions, the new firms will stimulate the import of complementary components and capital goods. This process of American innovation, which leads to increasing trade deficits, was vividly manifest during the recent electronics boom.



The exemplary product in this surge of American growth was probably the IBM personal computer. Introduced in 1981, in a mere three years it grew from nothing to some $7 billion in sales. It enhanced productivity and management resources in businesses, large and small, across the country. As it fed on the creativity of the suppliers of software—chiefly new firms such as Microsoft and Lotus—the PC simultaneously expanded the market for software. It fueled the success of the huge new industry of computer retailing. It provided standards that offered targets and specifications for all other efforts in personal computing. It fostered boom years for many semiconductor firms, starting with Intel and Advanced Micro Devices, the producers of its central microprocessor and peripherals. All in all, it was a dramatic boon to the U.S. economy.

Yet by the standards of Senator Danforth and others fixated on the trade balance, the personal computer was a catastrophe. It represented a drastic decline in U.S. competitiveness. Not only did it gorge on Japanese DRAMs; it also used Asian keyboards, disk drives, monitors, power supplies, and other components. In fact, while only a small proportion of total sales went overseas, between 60 and 70 percent of the machine was manufactured outside the United States. The Japanese version of the IBM PC was made by Matsushita. Moreover, by creating a settled hardware standard, it allowed the Japanese to penetrate the U.S. computer market with hundreds of thousands of PC clones.

The IBM personal computer symbolizes a computer revolution in the United States that contributed heavily to U.S. growth, productivity, incentives, and real personal income. It also contributed billions of dollars to the much-feared deficit in the balance of payments vis-a-vis Japan and other countries. Yet the gains to the U.S. economy dwarfed the debts incurred overseas. Similarly, the import of VCRs manufactured abroad is generating a far greater industry of video software and retailing in the United States. And as the debts to foreigners are repaid, every dollar will ultimately be spent on U.S. goods and services or investments. But the single-entry bookkeepers of Congress focus only on the liabilities of foreign trade.

The conventional economics of trade and aggregate demand are simply bankrupt. Nothing they predict is true. A trade deficit does not necessarily destroy employment; it may well increase it. A trade surplus does not necessarily increase national wealth and power; it may deplete it. OPEC nations have had the largest trade surpluses over recent decades, and the United States has recently had some of the largest deficits. What matters in economics is the release of creative energies in productive work and entrepreneurship.

Crucial by this supply-side measure is not aggregate demand but creative supply, not trade surpluses but trade incentives, not capital formation but entrepreneurial quality, not balanced budgets but low marginal tax rates, not national or institutional savings but the disposable personal savings that fuel more than 90 percent of all new businesses. What matters most of all is a nation's success in attracting, educating, and emancipating the most valuable capital in any economy: its human beings.

The United States remains in the world lead in chips and other high-tech products chiefly because it continues to enjoy a massive favorable balance of trade in the single most important area—a category that dwarfs in importance all the numbers that agitate American politicians. That domain is the international movement of human resources, chiefly immigrants.

Immigrants are the lifeblood of U.S. high-tech companies, from the top echelons of management and engineering (for example, Andrew Grove and Masatoshi Shima of Intel) through the design centers and dust-free "clean rooms" of Silicon Valley, and on to its remaining assembly lines. A Japanese immigrant teaching linguistics at Harvard University made critical contributions to Kurzweil's word processor. A Cuban refugee, Juan Benitez, recently became president of Micron Technology, the inventive company that created the world's smallest 64K and 256K DRAMs and is the only domestic producer to survive in that business, selling heavily in the open market. Luckily, the United States still accepts immigrants in large numbers (although Senator Danforth's colleagues are trying to pass protectionist legislation in this area, as well, and the welfare state is reaching out to destroy the work incentives of the refugees who do make it in).

Foreigners express greater confidence in America and its prospects by importing American bonds (claims on future American goods) than they would by importing more American bulldozers or baseball bats. By immigrating, they pay the United States the ultimate tribute.

The ideal of trade balance springs from a world when national power stemmed from the control of territory or the command of land masses and sea lanes, natural resources and bullion reserves; a time when the balance of power in Europe depended on who ruled the iron and coal mines of the Ruhr basin. In an age of 50-trillion-dollar capital markets that operate far more smoothly and efficiently than the markets for goods and services, however, there is no more reason for imports and exports to be balanced from one country to another than for the flow of immigrants to be in balance, or for a balance of trade between any two American states.

There is no particular relationship between the competitiveness of an entire economy and the pattern of imports and exports it displays. Such a balance is completely arbitrary, its pursuit entirely irrational, and its achievement possible only by ripping and tearing at the fabric of international commerce and interdependency.

The world has passed far beyond the economic theories that inspire the world's policymakers today. Failing to comprehend the new technologies that dominate capital markets and that shape the prospects of nations, they retreat to the accounting codes of mercantilism and the zero-sum games of static econometrics. They plunge back into primitive superstitions and numerological symmetries, into nationalist categories that are all but meaningless in a global economy or even to two systems as intimately intermeshed as the United States' and Japan's.

Contrary to the predictions of most modern writers, from George Orwell to Norman Mailer, this is preeminently the era not of nations but of individuals. Against the decisions of entrepreneurs to move themselves and their money, the bureaucracies of the state are increasingly impotent and at bay. The state may confiscate the means of production, manipulate the markets for money, issue orders and guns. It can steal technology but it cannot produce it; it can capture land but can scarcely till it. It can retain power by police controls but it cannot productively use it.

If a nation wishes to increase its wealth and power, it must create an environment that is hospitable to the men and women who populate the intellectual frontiers of enterprise. In this pursuit, what matters is maintaining a surplus in the accounts of liberty. ◧

George Gilder is the author of Wealth and Poverty *and* The Spirit of Enterprise.

by Mark Frazier

The French Revolution of 1986

Reason goes behind the scenes.

THE ELECTION OF March 16, 1986, marked a turning point for French politics at least as notable as the advent of the Reagan era in the United States. An energetic new prime minister, Jacques Chirac—known as "the Bulldozer" for his determined style when mayor of Paris—has taken office on a platform that includes privatization, tax cuts, deregulation, and other sweeping assaults on the traditional practice of *dirigisme*, or state-directed development. Chirac has come out in favor of abolishing all price controls, selling off 65 state-owned companies, and ending government subsidies to money-losing industries. To carry for the reform he has appointed as minister of industry Alain Madelin, an ardent young advocate of free-market principles.

If Chirac succeeds, he will have done much more than overturn the policies of his socialist predecessors. *Dirigisme* has been the policy of French governments for over 300 years—ever since Jean-Baptiste Colbert, Louis XIV's powerful finance minister, centralized economic planning in Paris. Traditionally, as a conservative lobbyist recently told *Business Week*, the Frenchman's equivalent of the American dream, has been "not to set up his own business but to become a high-level bureaucrat, driven around Paris in a metallic-green Renault 25." In short, France has never been a nation of shopkeepers, ready to embrace free-enterprise principles.

It has, of course, always had its champions of economic liberty—including such 19th-century titans as Jean-Baptiste Say and Frédéric Bastiat. But they were always fighting a losing battle, more influential abroad than at home. Through monarchies and republics, governments of the left and of the right, France has remained the country in which *laissez-faire* originated not as a coherent policy but as a plea from businessmen asking to be left alone. For the French government now to welcome, even partially, free-market ideas marks an epochal change.

The dawning of a new period in French political history has occurred in part because of pervasive disenchantment with Socialist rule. President François Mitterrand took power in 1981 with a clear majority of National Assembly seats—the first Socialist majority since before the Second World War. Confident of the state's ability to take France into the future, he nationalized major financial and manufacturing firms, instituted onerous controls on capital flows, regulated prices on products ranging from books to pharmaceuticals, and attempted to subordinate nongovernmental schools to the edicts of public authorities. (Private and parochial schools, attended by 16 percent of French students, receive government money but have always been free to determine their own curricula, staffing, and admissions.)

As the interventions took hold, French unemployment rates soared to more than 10 percent, capital flight accelerated, and over two million French citizens took to the streets in protest over the proposed school controls. Free-market lawyer Alain Madelin, the brash 40-year-old who is now Chirac's industry minister, gained national attention with a book on the deleterious effects of the state upon schools. And a favorable account of the Reagan revolution became a runaway French bestseller. Mitterrand gradually backed away from some of his more extreme policies, but not in time to save the economy—or his party's election chances.

THE DEBACLE OF socialism in practice does not, however, account for the rejection of *dirigiste* thinking. Behind the

PHOTOGRAPHS BY J.P. PLUNIER

Symbolizing the French right's conversion from statism, Jacques Chirac confers with Austrian economist Friedrich Hayek at a 1984 meeting (left) and presents him with Paris's gold medal (above).

scenes, a courageous and committed band of free-market revolutionaries—journalists, academics, and business leaders, armed with ideas—had spent 20 years fighting to overthrow French interventionist assumptions, of both the right and the left.

When the first stirrings of this resurgence of classical liberalism began to appear in the 1960s, France was still dominated by the often-autocratic figure of Charles de Gaulle and by a technocratic elite of civil servants committed to subordinating citizens and businesses to the interests of the state. To oppose these policies, the left pushed collectivism, in which unions and grassroots political entities would work with central authority to build a utopia free of capitalism.

Into this unpromising political and intellectual milieu came a small group of youthful academics and writers who drew their inspiration from the long-dormant French free-market ideas expressed by such economists as Say and Bastiat. Individuals such as Pascal Salin, Henri Lepage, and Emil Claassen —themselves products of elite French educational institutions—began meeting informally while in graduate school to explore alternatives to the prevailing orthodoxies. Their interest in free-market economics was awakened not only by the 19th-century liberal economists but also by the current writings of Austrian-school economist Friedrich Hayek, Chicago-school economist Milton Friedman, and the most prominent French classical liberal of the postwar period, Jacques Rueff.

"We were driven by individualist assumptions, which led us to classical liberalism," economist Pascal Salin recalled last spring as we sat in his book-lined office on the Left Bank near the University of Paris, where he teaches. Rather than engage in trench warfare with leftist faculty members over university issues, he has chosen to reach out to a wider audience—with great success. But in the early years, he says, "my economist friends and I felt quite alone—almost exiles within our profession."

The hostile climate of those years sharpened the analytic and persuasive skills of Salin and his free-market friends. As time passed, these skills earned them a grudging respect from their colleagues for their works on monetary, banking, fiscal, and tax policy. By the mid-1970s, a well-developed intellectual framework was in place from which to nudge the views of both policymakers and the public toward an appreciation of economic liberty.

France in the mid-1970s was showing signs of intellectual ferment. The publication of works by Alexander Solzhenitsyn exerted a profound effect upon political philosophers of the French left, who began questioning the premises of a system in which the state could systematically brutalize people. Disillusioned Marxists, such as Bernard-Henri Lévy and André Glucksman, became known as the "New Philosophers," achieving international recognition for their critiques of totalitarian systems.

Simultaneously, popular economics writer Henri Lepage gave informed French public opinion the first introduction to free-market trends in economic thinking outside of France. *Demain le Capitalisme* (Tomorrow, Capitalism), published in 1978, reviewed the worldwide headway made by conservative and libertarian economists, with a special emphasis on the Chicago and "public choice" schools. Two years later, Lepage published *Demain le Libéralism* (Tomorrow, Liberalism), which focused more on the Austrian school of economics. Both books became bestsellers, kindling interest in the ideas of what became known in France as the "New Economists"—not only those free-market thinkers discussed in Lepage's books but also Salin and his fellow French liberals.

The small corps of free-market activists found a ready response to their views among the ranks of rising political figures, particularly some associated with the party grouping led by Valéry Giscard d'Estaing. Beginning in 1978, Salin and his colleagues held monthly meetings at the National Assembly, exchanging ideas with such future Chirac cabinet members as industry minister Alain Madelin, culture and communications minister François Léotard, posts and telecommunications minister Gerard Longuet, and transport minister Jacques Douffiagues.

Still, though the younger politicians of the right were becoming more radical in their free-market views, the commanding heights of the French government remained in the hands of individuals with little evident commitment to change. Giscard and his prime minister, Raymond Barre—both economists by training—raised free-market expectations at first and even lifted the price controls on bread, which had first been established in the aftermath of the French Revolution. But, in the end, they just led France into a series of holding actions rather than reversing the growth of the state.

Free-market proponents experienced fre-

PHOTOGRAPHS BY J.P. PLUNIER

quent defeats in their battles with a state planning apparatus dominated by advocates of *dirigisme*. When Salin served on a Giscard government planning committee, he received off-the-record support from civil servants who agreed that subsidies to the shipping industry made no sense. But when the vote was taken, he stood alone against the subsidies.

"As could be forecast, I was defeated, and the committee's report mentioned the necessity for large subsidies for the ship-transportation industry, which got it," he recalls, with typical bemusement. "Thus, the Plan gave a 'democratic' legitimacy to public subsidies in favor of a given sector." The tyranny of the status quo prevailed.

As a result of such experiences, few felt optimistic about the prospects for free-market reforms. In 1980, Salin told a meeting of the Mont Pelerin Society, the international association of free-market intellectuals founded by Friedrich Hayek in 1947, that French politicians of both the socialist and nonsocialist parties appeared locked into a system of privilege and power, dimming propects for change in either the near or medium term.

At the same Mont Pelerin meeting, however, an executive of the French multinational Michelin was becoming convinced of the need to take action against the spread of interventionism. Then a 50-year-old manager of a $200-million Michelin project in Egypt, Guy Plunier had put himself through college and graduate school in Tokyo and spent most of his career abroad. He drew particular encouragement from the experiences of free-market "think tanks" in other countries. Organizations such as the Institute of Economic Affairs and the Adam Smith Institute in Great Britain, the Institute for Humane Studies and the Heritage Foundation in the United States, and the Fraser Institute in Canada, he thought, could provide examples for France.

"I realized the vacuum—that no institution existed for the promotion of capitalism," Plunier told me during interviews spread over two weeks in April. "More and more I was convinced of the need for an institute, but I did not think of myself as the person to do it." It took Mitterrand to change his mind.

THE NATIONAL elections in mid-1981 transformed the mood of free-market proponents from a wait-and-see attitude to thoroughgoing alarm. The Socialist Party, kept from power for decades, won an absolute majority of the popular vote, 52 percent. Its Communist Party allies polled another 16 percent and gained four cabinet seats in the government that took office in June.

The program of the allied Socialist/Communist left consisted of far-reaching measures. It represented a coherent platform of nationalization, worker participation, and increased subsidies in fields from housing to health care. Within a year of taking office, the new government seized five industrial groups and 36 banks. For workers, it decreed new powers on the factory floor and in corporate boardrooms. It forced employers to issue 40 hours of pay for each 39 hours of work. The socialists tightened rent controls and forbade price increases on a wide range of consumer and wholesale goods.

It was clear to the small group of free-market proponents that the time for concerted action had come. In 1982, Plunier was scheduled to return to the head office of Michelin in Paris. "It was the worst period of the Mitterrand government," he recalls. Although France had a number of market-oriented groups at the time, none was taking a consistently classical-liberal perspective on public-policy issues. After talking with Pascal Salin, Henri Lepage, and free-market think-tank entrepreneur Antony Fisher, Plunier decided that he was ready to leave Michelin and take on the challenge of organizing the first truly free-market—and politically unaffiliated—institute in France.

The Institut Economique de Paris was launched in September 1982, with its first priority to publish works by Austrian economist Ludwig von Mises, France's own Frédéric Bastiat, and other out-of-print classical liberals whose arguments against government intervention were particularly timely for France. The monographs attracted wide attention in the French press, which welcomed the institute for providing a long-neglected critique of *dirigisme*—and a new intellectual trend to cover.

The institute concurrently began a series of monthly (now weekly) breakfast meetings at its offices within hailing distance of l'Arc de Triomph. The breakfasts, featuring leading classical-liberal speakers from as far away as Australia and the United States, sparked interest in many ideas that would become part of the 1986 platform of Jacques Chirac's conservative party. One forum, for example, introduced Alain Madelin to the concept of "free zones"—designated areas free from most taxes and regulation. Madelin, who has been described by conservative political strategist François Froment-Meurice as "an anarchist of the right with the temperament of a revolutionary," became a forceful proponent of the zones, which the Chirac government is working to implement next year.

By March 1984, the institute was making indisputable progress with both the media and politicians. Plunier hosted a regional meeting of the Mont Pelerin Society, attended by 200 people and featuring Hayek, who had by then won the Nobel prize in economics. The French press showered attention on the participants. Major periodicals of all ideological stripes, including *Le Monde*, *L'Express*, and *Le Nouvel Observateur*, gave

Guy Plunier left Michelin in 1982—"the worst period of the Mitterrand government"—to found a free-market think tank. Today, his institute bustles with foreign visitors, young staff members, and even cabinet ministers.

unprecedented coverage to the ideas of the classical liberals. Louis Pauwels, the editor of one of France's most important news magazines, *Le Figaro-Magazine*, was especially struck and thereafter became one of the country's most consistent free-market advocates.

Chirac, the mayor of Paris, showed comparable interest. His speech gave fulsome praise to the classical liberals. "Know, Professor Hayek," he said, "that you have served as a guide to the Pilgrims of Freedom that we want to be." And in a richly symbolic gesture, he presented Hayek with the gold medal of the city of Paris—for three centuries the headquarters of *dirigisme*.

"We were driven by individualist assumptions, which led us to classical liberalism," says Pascal Salin, one of the "New Economists" who have revived laissez-faire ideas in France.

WHILE THE Institut Economique was making a name for itself as the center for a coherent free-market intellectual alternative, another group was concentrating on the nuts and bolts of the privatization and deregulation process. By 1984, René de Laportalière, a former banker with Crédit Lyonnais, had become so concerned by the direction of the Mitterrand government that he had secured seed funding to launch an unprecedented venture—a think tank devoted to preparing specific policy reforms to offer the non-Socialist government he was sure would be elected in the spring of 1986. Located in a building in Montmartre, France's famous red-light district, de Laportalière's group, named Printemps [Spring] '86, garnered hundreds of thousands of dollars from like-minded businessmen and began to assemble working groups to devise detailed privatization and deregulation proposals.

Printemps '86 quickly drew notice for the thoroughgoing nature of its attack on statist policies and programs. Derided at first as an ideological Don Quixote by Mitterrand government cabinet members, de Laportalière and his organization soon gained increasing respect as the scope and quality of Printemps activities became evident. Assisted by Salin, Lepage, free-market economist François Guillaumat, and a dozen strategically placed businessexecutive volunteers, de Laportalière formed task forces to identify radical yet practical alternatives to the left's socialist policies and the right's own tired *dirigiste* measures.

Each task force normally consisted of a small group of specialists in a specific area. After they produced a proposal, free-market lawyers transformed it into specific legislative language. Then the draft reforms were submitted to nonpartisan legal and constitutional advisors, who reviewed the propriety of the proposed initiatives. Throughout 1985, concrete Printemps initiatives surfaced in such areas as tax reduction, privatization of banks and manufacturing concerns, private alternatives to the bloated French welfare system, and removal of price controls.

Meanwhile, other market-oriented groups were making their voices heard in public-policy debates. Led by professor Jacques Garello, the economics and law programs of the University of Aix-en-Provence, near Marseilles, nurtured young free-market scholars and attracted business leaders and intellectuals to its Summer University of the New Economics, featuring French and American free-market economists. The Club de Horloge, the Institut de l'Enterprise, the Institut du Citoyen, and the Institut la Boetie made telling points in attacking the foibles of socialism, if not advancing a coherent free-market alternative. Such groups variously reflected the influence of conservative nationalists, French entrepreneurs, efficiency-minded reformers, and market-oriented (rather than libertarian) economists.

The addition of Printemps's practical, well-engineered policy alternatives had a substantial effect on the opposition parties. By 1986, the combined platform of the Chirac-led Rally for the Republic and the Giscard-oriented Union for French Democracy embraced many key elements of the Printemps agenda. Chirac repeatedly invoked the free-market themes and policy ideas injected into public debates by the institutes and sought out classical-liberal journals and interviewers to communicate his message.

In a 1984 interview with Salin published in *Le Figaro-Magazine*, he spoke passionately of his commitment to "humanism," or individualism. "I define it thus: the conviction that nothing good or great can happen except by man and for man, with absolute respect of individual rights and liberties, themselves justified by the duties incumbent on each person," Chirac told Salin. "It is only thus that the development of the creative faculties of individuals and societies can be assured." Humanist economics, as he defined it, "knows that the production of wealth can never be anything but the fruit of work and of the ingenuity of individuals and that the state, in whatever form, cannot produce. In short, it sees the solution to economic problems in individual autonomy and initiative more than in collective or state intervention."

THROUGHOUT 1985, Chirac's support for free-market policy reforms grew, as did the interest of the French media in such proposals. Finally, in March of this year, the preparations and hard work of the previous four years paid off. French voters turned out the Socialist government by a 55 percent to 45 percent margin—a decisive verdict by French standards. While Mitterrand himself remains in office until the next presidential election in 1988, the

March elections deprived the Socialists of their control over the National Assembly and thus the prime minister's office. With great anticipation, the free-market liberals looked forward to a flurry of privatization, deregulation, and tax-cut initiatives.

And were disappointed—at first.

Despite rhetorical fanfare, substantive actions were not immediately forthcoming. As week followed week, de Laportalière and others who had invested heavily in a "fast start" for the government, with legislative proposals ready and waiting, grew increasingly concerned. The new cabinet ministers were at odds about the pace and scale of efforts to institute alternatives to state economic planning. The depth of Chirac's own commitment to change was also in question.

Beginning in mid-April, however, following intensive prodding by influential business associates of de Laportalière, a host of market-oriented policies burst forth. In quick succession, the following initiatives were undertaken:

- Social-security tax burdens were lightened.
- Over three dozen nationalized companies were slated for privatization. (The govenment has now upped the total to 65 concerns, including financially troubled automaker Renault, the country's largest company.)
- Price controls on a range of consumer goods were removed or relaxed.
- Burdensome foreign-exchange controls were reduced.

The initiatives are far from perfect. Foreigners can only buy a limited share of the newly privatized firms, and Chirac plans to sell off only a few companies a year. Some tax increases have offset the reduction in social-insurance taxes, and various price controls and foreign-exchange controls remain. As predicted by Alain Madelin even before he took office, "We can make a big step forward in 1986, but real change that will save the French economy is a decade's work."

Whether Madelin will get his decade to change the French economy is uncertain. Chirac's hold on the office of prime minister is hardly secure. Although Chirac controls the National Assembly, Mitterrand remains president and has used his office to delay privatization initiatives. Both men are eyeing the presidential elections of 1988, and each is seeking to maneuver the other into becoming the scapegoat for the collapse of their uneasy "cohabitation" in power.

Yet the free-market reformers in the new government are determined to see fundamental change. Madelin, for one, is frank about his commitment. Shortly after taking office, he told the business magazine *L'Expansion*, "In France as in the other Western industrialized nations, we have experienced over the past few years a cultural revolution toward greater realism. The blind faith in the virtues of government planning is over. But we must go farther. We must abandon moderate talk. I am not for a mixed economy—I am for creative capitalism. It's all well and good to have discovered the value of business, but it would be still better to admit the necessity of profit and risk."

"All of the French are becoming converted to the spirit of the marketplace," admits Jacques Delors, a former Socialist cabinet member.

BUT THE institutions behind the changing intellectual climate are confident that, after decades of supremacy in France, the belief in statism is gradually giving way. Over the past five years, a new laissez-faire attitude has been steadily growing in strength, especially among the young. In Plunier's view, "the young generation is more individualistic than the postwar generation—it doesn't believe in the collectivist ideology of the left." Indeed, his institute's offices bustle with committed young staff members, often students working part-time while attending prestigious universities. René de Laportalière strongly concurs, noting that "the new generation rejects statism."

Serge July, editor of *Libération*, the daily read by many young Parisian professionals, observes that businessmen have become "cultural heroes and cultural models" for his readers. And the communist-led Confédération Générale du Travail, France's largest labor union, is steadily losing members, while the pragmatic, U.S.-style Force Ouvrière, or FO, has become the fastest-growing union in France. "Workers don't care about ideology anymore," André Bergeron, the FO's founder and a Chirac ally, told *Business Week*. "I want business leaders to succeed."

Having won beachheads in the intellectual, political, and economic life of the country, organizations such as the Institut Economique de Paris and Printemps '86 are now consolidating their positions. Besides establishing new centers on privatization and free banking, the institute has branched into Montreal, Canada, and Plunier has created a New York-based organization, the Tocqueville Foundation, to support the cause of free markets in French-speaking countries. Printemps '86, meanwhile, has been actively monitoring the day-by-day progress of reform initiatives, and de Laportalière has recently launched Fondation Liberté, a more permanent free-market lobbying group.

Politicians across the spectrum, sensing the fundamental nature of the intellectual and political change, have lost little time in appealing to the public's distaste for bureaucracy and *dirigisme*. Even the Socialists have rushed to distance themselves from the basic tenets of their party. The most popular Socialist politician in France, Michel Rocard, has conceded that the leftist idea of the state has been subjected to an "ideological rout." Jacques Delors, Mitterrand's former minister of economics and finance, has disowned the substance of the Socialist nationalizations, work-week legislation, and social-security expansion, declaring that "all of the French are becoming converted to the spirit of the marketplace." In the view of a bemused editorial in *Le Figaro-Magazine*, France appears to be witnessing an ideological robbery of classical-liberal ideas by past partisans of statism.

Words, of course, do not in themselves make a revolution. As the United States has seen, the rhetoric of support for the free market can divert attention from the implacable growth of the state. The new French Revolution is young, with many promises to fulfill. But the French government now seems ready to chart a new course of debureaucratization and depoliticization, withdrawing from major sectors of the economy. These changes have taken place because a committed group of free-market revolutionaries—hurling ideas, not bombs—planned and plotted and, at the right moment, struck.

The results are now evident. Once, a politician of Chirac's temperament would have continued to aggrandize the state's institutions and programs. Today, because the climate of ideas has changed, he has begun in a determined way the task of bulldozing them down. ◻

Mark Frazier is chairman of the Services Group, a Virginia-based international consulting group specializing in privatization and free-trade-zone projects in developing nations.

By Mark Skousen

It Takes Time to Make Money

If Henry Hazlitt can reduce the basics of economics to one lesson, I can do the same for investing. The best way for me to synthesize the world of finance into a single lesson is to tell a story.

While attending an investment seminar last year in Los Angeles, I was awakened in my hotel room at 7:00 A.M. by a frantic phone call from a subscriber to my investment newsletter. He said he had recently retired and had invested nearly $250,000 in an offshore mutual fund that purported to make constant profits of 25 percent or more a year. Several months later, he had become concerned when the fund failed to respond to a request for a modest withdrawal. He had called the foreign company, only to discover that the telephone had been disconnected. Now he wanted to know if there was anything I could do for him.

Sadly, there was little I could do. I told him that I had heard of the company and that the investment advisor had embezzled his money and millions more. Currently, the investment advisor is in jail, awaiting trial. Meanwhile, almost all the money is gone—forever.

The worst part was that this investor—it was hard to believe he was one of my subscribers, since I have warned repeatedly about financial frauds—had invested his entire life savings, and his wife's as well, in this fraudulent scheme. I was sincerely sorry for him. But I had to wonder how a man who spent his entire life working hard and saving a quarter of a million dollars could lose it all in a matter of months.

Every year at financial seminars, I meet thousands of investors—businessmen and entrepreneurs who have been extremely successful in their careers. Very few come to seminars to learn how to make their first million. Most are already successful and are just trying to keep the surplus funds they have worked long and hard to obtain. They want to become successful investors, just as they have become profitable business or professional people.

Well, to tell you the truth, most of them *can't* be successful investors. People will never be as successful in investing as they are in their own businesses unless investing *is* their business. You may think you can be great speculators by reading a couple of financial books, going to a few seminars, or reading this column once every two months. But you should think again. You can't be passive investors and expect to achieve the same monetary rewards as you do in your active professional or business lives.

Look at the Forbes 400 Richest People in America. How many made their fortunes investing in the stock market? Only three! How many made it investing in coins or artwork? None! The most prevalent way to riches was not investing at all.

Even in the financial world, the most successful investors are full-time businessmen and entrepreneurs who provide the services to investors—stockbrokers, money managers, coin dealers, real estate brokers, mutual fund managers, insurance salesmen, mail-order promoters, tax-shelter brokers, and yes, even newsletter publishers. They are the ones who make it big. Usually the investor is the last one to make any money.

Want proof? Look at the Forbes 400 Richest People in America. How many made their fortunes investing in the stock market? Only three! How many made it investing in rare coins or artwork? None! Admittedly, more (70) made it in real estate, but many of them are land or shopping-center developers or have inherited property from financial tycoons who made their fortunes in other ways.

By far the most prevalent way to riches was not real estate, not the stock market, not mutual funds—in fact, it was not *investing* at all. It was people's own businesses—manufacturing, retailing, banking, shipping, computer technology, etc.

So what is the lesson? If you want to be a successful investor, you have to give it the attention of a full-time business.

Review why people are successful in a business. It is because they concentrated on doing things right. They took the necessary time to educate themselves, to research ways of becoming more proficient. They got involved. They relied on the expertise of others, but they didn't let them do the job. They spent hours, often overtime, to make sure that they understood everything.

That's the same attitude you need when it comes to investing. You can make money in the stock market, mutual funds, and gold, but only if you take the time to learn what it's all about. You'll undoubtedly make mistakes, but you will learn from those mistakes and become better at it, just as you did in your business.

You might say, "But I'm too busy in my own business to take on another full-time job of investing. I'd rather rely on a professional money manager." You're asking for trouble. No one will watch your money more closely than you. If you can't take the time to investigate an investment area thoroughly, you're better off not getting involved. I've seen too many people get burned by blindly turning their money over to the "professionals." Stay only with areas you are familiar with. If that means only the stock market, or rare coins, or even money market funds, so be it. Don't let diversification be a cover for ignorance of the marketplace.

Two classic books on the subject are worth reading: *The Battle for Investment Survival,* by Gerald Loeb (Simon & Schuster, 1230 Avenue of the Americas, New York, NY 10020), and *The Richest Man in Babylon,* by George S. Clason (E. P. Dutton, 2 Park Ave., New York, NY 10016). Both are often available in bookstores or libraries.

Remember: Invest as though it were your full-time business, or don't invest at all!

Mark Skousen, editor of the investment newsletter Forecasts & Strategies, *is adjunct professor of finance and economics at Rollins College.*

spotlight

By John Dentinger

Individualist in the Oddest Place

When he recently took up genealogy, Larry D. Kump was thrilled to find he is a direct descendant of Patrick Henry. "That just tickled me to death, because I liked his feisty attitude," he says.

The last place you'd expect to find Henry's literal or spiritual descendant is at the head of a public workers' union. But Kump, executive director of the Indiana State Employees Association (ISEA), is no ordinary union boss.

For one thing, he runs a voluntary group and doesn't think workers should be forced to join the union in order to work for a unionized employer. "Sometimes employees need to be protected from the caprice of their own union, and an open shop is the best way to do that," he says. And Kump even evinces some sympathy for people who cross picket lines. "I have a problem when people face reprisals for choosing to come to work." (As public employees, ISEA members are forbidden by law to strike.)

He isn't a typical public-employee advocate, either. Most unions, especially those of government workers, fiercely oppose privatization. But Kump, a fan of science-fiction writer Keith Laumer's satires of bureaucracy, supports some efforts to shrink the state. "I don't think any services ought to be provided by the government just because they always have been."

The ISEA has proposed legislation that would require the state to demonstrate that a job is really necessary before replacing any employee who quits. The bill would also require cost-savings studies of any proposed privatization of government services.

But Kump wants government either to do a job itself or to get out of the business completely—not to hire private contractors. "The problem with contracting out is you don't want it, as with the Pentagon, to be underground political patronage, often tied in to 'contributions' to politicians."

A handful of career state employees formed the ISEA in 1953, Kump says, because "they were tired of scurrying to save their jobs every four years." The union has been fighting patronage ever since, but politicians still control about a third of state jobs. With the Indiana Libertarian Party, the ISEA has filed suit to overturn the system. The Republicans, who dominate the state, have tried to have the suit dismissed, to no avail.

Larry D. Kump: "Nobody knows what's wrong with government more than government employees."

The ISEA has also championed the rights of whistleblowers. "Nobody knows what's wrong with government more than government employees," says Kump. After a four-year fight, the legislature enacted an ISEA-backed law that protects the rights of state workers to belong to unions, to participate in political activity, and to report corruption without fear of reprisal. Now the ISEA is pushing to add criminal penalties for those who harass whistleblowers.

The ISEA receives whispered phone calls revealing political corruption. It cooperated with the press and FBI in investigating a scam in which state corrections department officials skimmed state funds and inmate benefits for personal use. Among other misdeeds, reports Kump, the department's commissioner used state funds to restore his already lavish state-provided home, even goldplating the bathroom faucets.

Kump didn't plan on a career as a union leader. As a student in Hagerstown, Maryland, he wanted to become an electronic engineer—until he hit calculus. "I sold my calculus textbook on the black market in high school to someone who'd done something obscene with his book."

In junior college, he edited the school paper and managed to offend the administration with his libertarian approach to students' rights. "They were so upset that they took away the scholarship which I was supposed to get as a perk for being editor," he recalls. After college, he spent a few months as chief aide to the Pennsylvania state senate's minority leader, then settled down for six years at a public workers' union in Maryland before moving to Indiana.

In Kump's eight years as executive director, the ISEA has grown from 2,900 members to 4,000—despite a 20 percent reduction in the total number of state workers. (Indiana is the state with the fewest public employees per capita.) The ISEA is now the state's largest public employees' union. But Kump has paid a steep personal price for his success.

Kump says that, after encouraging him to take the job, his wife decided she couldn't put up with the long hours he was working. About six months after he joined the ISEA, she left him. The same day, he was diagnosed with cancer.

"When she told me she was moving back east with our two kids, that upset me more than finding out that I had terminal cancer." An operation took care of the cancer, but his wife is still gone. They share the children. Kump, a Mormon, lists himself on his business card as "father of David & Sarah Kump," right under his ISEA title.

The union's success—often at the expense of the American Federation of State, County, and Municipal Employees (AFSCME), an AFL-CIO affiliate—has also drawn unwanted attention from the AFL-CIO's archrivals, the Teamsters. Without his knowledge, Kump says, "One of our staff cut a deal on the side with the Teamsters to get the ISEA to affiliate with them. A Teamster representative came into my office and said 'We're going to get your membership anyway, so why don't you do it the easy way, and we'll give you a similar position—and save you the embarrassment of being run out of the state professionally.'"

The man told him one of the benefits of Teamster affiliation, says Kump: "'You have trouble with anybody, you point him out to us, and we'll punch him in the nose.' I thought he was kidding, but then I saw he was serious. I told him to do what he could and if they could take over, I'd get a job slinging hamburgers."

In a free market, Kump is confident that this brand of union leadership sells best.

John Dentinger is a free-lance writer in Los Angeles.

life & liberty

Imagine There's No...

By Stephen G. Barone

I was both unlucky and lucky to have procured my higher education during the late '60s and early '70s.

Unlucky, because I never took a course in economics—not micro, not macro; neither domestic nor international. To have registered for such a thing would have been considered just too unchic.

Thus there is a cavernous and empty place somewhere in the midst of my personal western hemisphere where are supposed to reside such things as my understanding of the rediscount rate, what is Say's Law, why bonds go down when everything else goes up, and why a market *downturn* and a market *recession* are somehow different.

Pity. Invite me to a party and leave me all alone with a stack of cocktail napkins, and at the end of the evening you'll have nothing but a pile of neatly wrapped olive pits.

Still, all is not woe. I am also lucky. By avoiding those very same classrooms and their professorial denizens, I emerged from the '60s relatively innocent of Keynesian non sequiturs. Investors and savers have never appeared any different to me.

My best friends will tell you: My unidimensional grasp of economics usually comes to the fore after little more than a single glass of diet chablis and a few Ritz crackers with cheap brie. So I know little enough to feel no embarassment about forwarding for your consideration the following person, who is my nominee for the world's greatest economist, living or dead. He is Jean Piaget.

Jean *who*? I'm glad you asked.

The late Jean Piaget was a Swiss psychologist who never wrote a single word on the subject of economics. And I'm glad. If he had, he might have decided he was a communist or socialist or one of those terrible other *ists* to which Europeans seem to have affinity just prior to the collapse of one of their economies. But he didn't. So I am free to imagine whatever I wish about his ideas on economics.

Piaget was somewhat precocious as a child, doing things like publishing scientific papers on ornithology barely a year after his chronological age made it into the double digits. By the age of 15, his interests had moved away from birds and toward clams. He studied mollusks. He was awarded a doctorate in the natural sciences by age 22, that point in life when most of us are still trying to decide between graduate school and getting into a rich uncle's linoleum business.

Piaget found employment with one Alfred Binet of France. Binet is the fellow who invented intelligence testing as we know it today. And Piaget found himself administering to the school-age population of France the tests that Binet had constructed. He wasn't wholly impressed.

He *was* wholly impressed, however, with the following: that the children with whom he worked differed from one another not so much in the *quantity* of their intellectual prowess as in the *quality* of that prowess. So he constructed a theory about developmental epistemology that is now the benchmark by which competing theories are judged. It is perhaps no less an achievement than one might expect from a fellow whose pen pal was Albert Einstein.

Piaget was the first to purport that adults are not simply *more* smart than children, children *more* smart than toddlers, and toddlers *more* smart than infants. He insisted that the stages of infant, toddler, child, and adult intelligences are epistemological states that differ from one another in much more than just pure quantity.

To the reader not conditioned to the usual musings of psychologists about intelligence, this might not sound very profound. But Piaget was one of the first to give children their reprieve from the gloomy sentence of behaviorism. Too, he believed that cognition and intelligence are uniquely *human* traits, affected by the environment but intrinsic to the organism.

But I can feel you shuffling in your seats. Go ahead—ask. *What has all this to do with economics?* Well, I'll let you decide.

Piagetians postulate many points about human cognition and intelligence. Only three are important here. Together, I would submit, they provide the underpinnings of a better-than-average explanation for the sorry state of the world and its economic policies.

First, Piagetians contend that children have their views of the world bound up in concretes. Indeed, Piaget called this the concrete operational stage, when children are generally incapable of imagining a situation with any of its variables somehow different. So kids at this stage have a lot of difficulty with "what if" questions, such as, What if the sun actually rotated around the earth rather than the other way around? or, What would happen if the average temperature of the United States dropped 10 degrees?

Yes, children love to play around with such questions and try answers to them. But the answers are most often what Piagetians would call translogical, meaning they follow the rules neither of deduction nor of induction, as would an adult's speculations given the same set of hypothetical premises.

Second, Piagetians conjecture that only sometime during adolescence do children become able to deal adequately with such abstractions. This is called the formal operational stage.

It's during the formal operational stage that young adults become able:

- to deal successfully with propositions

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that are contrary to fact (What if there were no Federal Reserve Bank? What if there were no minimum-wage laws?),
- to imagine several alternative explanations for the same phenomenon (What really caused the Great Depression? Are there circumstances where higher taxes might actually decrease municipal revenue?),
- to deal with metaphor (What is meant by the market's "invisible hand"?), and
- to understand that classes are not only groups of concrete objects but may also be conceived as abstract entities (What are those elements that make up democracy? What are those elements that make up justice? How can democracy and justice become elements that make up something called freedom?).

Okay. I can sense you're again getting restless. This can all seem very benign and more within the realm of pedagogy than economics. But then, consider this third point: *Piagetians contend that nearly 50 percent of the adult population never adequately develops the capacity for formal operational thought!*

Half the population is often bound to the reality of the moment. They are relatively impotent to imagine how things might be under different circumstances. They usually view their world only in terms of how it appears to them at some particular moment.

Just imagine yourself at a routine cocktail party. Ask the party mate you've been randomly thrown up against, "What if there were no local zoning laws?" and you'll likely get a blank stare. Press him with "What if there were no minimum-wage laws?" and you'll be getting unadvisedly close to his threshold of irritability.

The ways of the economic world are pretty uncomplicated for this guy. If he thinks gasoline prices are too high, he wants someone to *make* them lower. If he thinks Americans are buying too many Japanese cars, he wants someone to *stop* so many Hondas and Toyotas from coming into the country. If he thinks his salary is too low, he wants someone to *make* it higher.

And mind you, Piagetians assert that half the adult population think at this level, even though many of them might have what traditional intelligence-measurers want to call average intelligence. If this is true, then it's a discovery worth the Nobel Prize for economics. It's at least as important as whatever it was Milton Friedman discovered about how we save money under the happy circumstance of being allowed to keep it.

What then is the task before us, if we intend to explain such notions as "the invisible hand" to all the people out there who go into the voting booth and pull the lever for politicians who want to meddle in everything from the price of milk to the content of TV programming? Piagetians are saying that there exist many, many people whom we regard as reasonably bright and well informed, whose powers of abstraction are not developed such that they can imagine how a truly free society could work.

You know some of these people. They express an initial affinity with individualist ideas, but then balk at the mention of an "unregulated" economy. "Gosh," they say, "I can't imagine no regulation at all!" And they're right. They can't. So they proceed to outline for you their own little tyrannies about how *they* would go about imposing controls on things they cannot fathom operating unfettered by government. And there are quite a few such things.

I am not the only one who notices this. I have allies in strange quarters.

Consider the sorry story of Hyatt Clark Industries Inc. in 1985. One would think that in one way or another, people would realize that their livelihoods depend rather directly on the economic well-being of the company for which they work. But history has not borne out this assumption, in general or in the case of Hyatt Clark.

According to a *Business Week* report last year, the company's "hopes of survival" had "suffered a sharp setback." It seems there were three United Auto Workers (UAW) union members among the 12 members of the company board. That very same board voted to reinvest the company's $600,000 profit in new machinery rather than distribute it among the employees via a profit-sharing plan. As a protest, the union staged an old-fashioned slowdown, bringing on 10 straight months of operating losses for the already troubled company.

The result? Their own layoffs. Why? I would conjecture that, not having thought through the future consequences of here-and-now behavior, they had no idea that they would wind up firing themselves.

But don't take my word for it. One of the independent directors of Hyatt Clark was retired UAW president Douglas Fraser. He voted for the new machinery. He told *Business Week*: "I said to the local guys, 'It's not that the money is going into the corporate cash register. You have got to view this as your money that goes into another pocket.' But it's hard to get that *concept* (emphasis added) across."

And *that's* the problem.

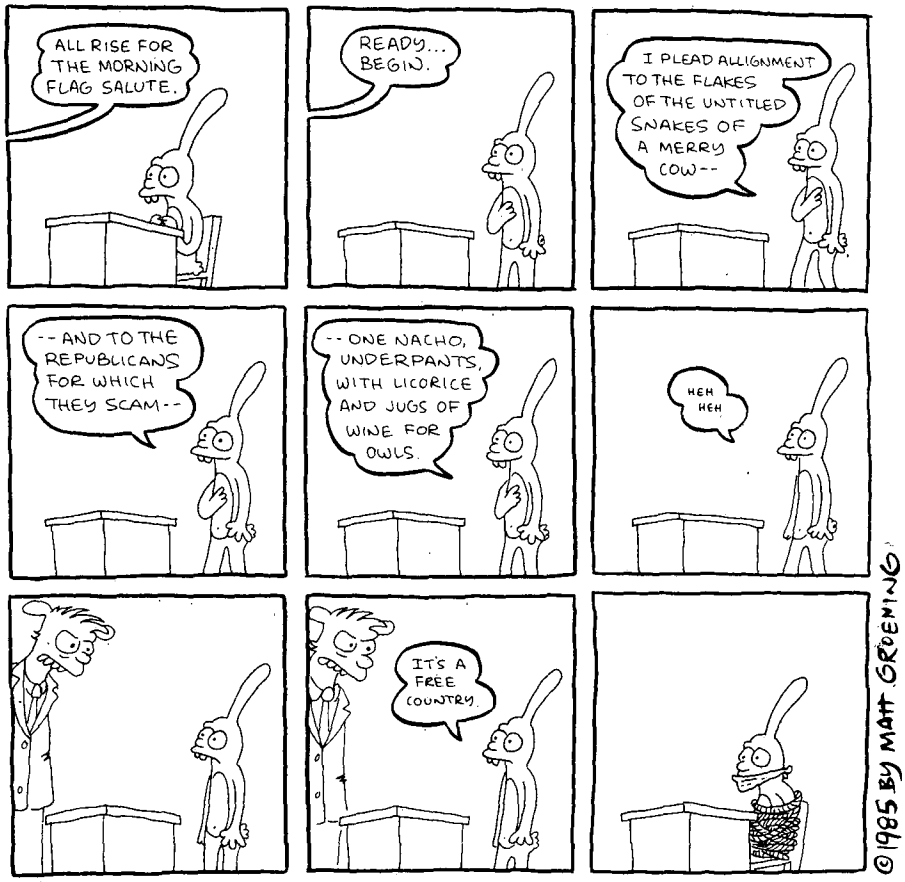
Stephen Barone is a children's psychologist and free-lance writer.

the book case

What Do Kids Think About Government?

By Karl Hess

The Political Life of Children, by Robert Coles
Boston: Atlantic Monthly Press, 341 pages, $19.95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Once, while living the bohemian life in Greenwich Village, I knew a fellow named Joe Gould who attracted some weighty attention (including a long profile in *The New Yorker*) because he was writing what he called "the oral history of the 20th century." His method was to take detailed notes of every word he heard uttered during the day. Whether this would ever have provided raw gold for other, more-selective historians is not known to me, since I lost track of Joe many years ago and so, apparently, did everyone else. What old Joe's technique did accomplish with notable efficiency was to keep Joe awash in beers bought him by young admirers such as myself who felt, in those odd years, that anything weird was also bound to be wonderful.

I thought of Joe Gould often while reading Robert Coles's latest book, which is a continuation of what could be called an oral history of children with exactly as much precision as Joe Gould's boxes and boxes of notes could be called an oral history of the century. Presumably, Coles is doing as well as old Joe at collecting beers and such for his effort. Just offhand, I'd say that old Joe might have more to offer in return for all those oceanic tides of suds.

The dilemma in reviewing a Robert Coles book involves figuring out ways in which to restrain yourself from dithyrambic excursions of ridicule of what must be the most pompously naive, self-consciously self-effacing, and extraordinarily self-serving literary style on the planet earth. (The entire enterprise might be written off as an academic justification for the most permissive work and travel schedule that could be imagined. Imagine being paid for decades of world travel, recording the lisping lore of little folk! Even Charles Kuralt never had it so good.)

As an example, there is Coles's psychiatrically informed reaction to a young Cambodian boy (now living in America) who had survived the bloodbaths in his own country and was adjusting nicely to the bourgeois life of his new country. The lad had brought Coles a drawing of geese flying. (Coles, incidentally, puts a good deal of stock in the drawings of children. He derives from them just about every imaginable conclusion except the one that young children often are limited in what they can portray by an as yet undeveloped array of motor skills. He never considers the possibility that some of their drawings are purely accidental in nature rather than being crystal-clear windows to the darkest recesses of their minds.)

"Khek [the Cambodian lad] said this to me: 'Do you think they [the geese] watch us, like we watch them? Do you think they wonder where we're going?' I could only say 'maybe'—and stop and think. How much this boy had taught me about the manner in which children leave a nation, go to another nation, become exiles, learn to feel at home in a new place, dream still of a return, feel increasingly comfortable where they are, hold on to old social and cultural values, gain new ones, and finally feel less and less part of one country, more and more a part of another one—and in their minds wonder, and like geese, wander, as they try to figure out the why, the where, the whither of this world." Imagine, children adjust to new surroundings!

In another instance, Coles interviews a young girl in Ireland. Her brother had been killed by members of the Irish Republican Army, but she told Coles that "we should pray for those we fight with, and if we don't we're going to be in a lot of trouble when we meet Him." Coles, bowled over by this tiny religious sage, says: "I call that remarkable—a girl of only nine, and with a lot of cause to be full of vengeance. She loved her brother, and she mourned him. She loved Jesus, though, and remembered his teachings. These can be pensive lads and lasses, even the wee ones of five or six. They ask me tough questions for which I'm not sure Socrates would have easy replies. A Catholic boy, only eight, asked me one day why the Prince of Peace didn't come and make peace, just like that—and the child snapped his fingers. I told him I didn't know, but I wished He would. The boy promptly said that maybe God can't do all He'd like to do! I believe theologians are still sweating over that one!" Imagine, a child of eight has a question about God!

And to think, Coles, the man, only had to go to college for umpteen years and buy a tape recorder in order to stand in awe of such wisdom as those children keep producing for his wondering, and wandering, ears to behold. Lest anyone think that only the humbling sagacity of the young puts Coles into a tailspin, however, I must quote what seems to me the absolute gem of the entire book. At one point he finds himself "noticing how widespread an imagery can be. When I shared some of these statements with Miss [Anna] Freud, she gave an ironic, wry smile: 'The directness of symbolism—we must not make too much of it; or too little, either.' " Coles has the decency to call that Delphic, but he did not have the decency to omit it from the book.

Other items of astounding information that Coles was able to pick up after only about two decades of interviewing the kiddies:

- Kids pick up many of the things they hear around the house.
- They learn nationalism both at home and in school.
- Some of them mistrust, trust, hate, or admire the same people their parents, peers, or teachers mistrust, trust, hate, or admire.
- Many of them have some rudimentary knowledge of what goes on in the world. (One youngster told Coles that the president is "some fast talking dude who has wax on his shoes and can dance his way around anyone in sight." Another one points out that a judge who orders a socially disruptive school busing plan "lives in a fancy suburb, and no one in his family has to go through what we're going through.")
- Children have feelings, emotions, and opinions (almost like real people, eh?).
- Poor children are more preoccupied by the lack of money than are middle-class children. The children of the rich fear social change.
- Class (rich or poor, roughly) plays an important part in shaping the attitudes of children.
- Even the children of the poorest or most oppressed and fearful parents (blacks in South Africa, for instance) still feel patriotic about their country and regard it as theirs, speaking even at their most violent of making *their* government do the right thing.

If all of this sounds as though there is nothing of value in the entire book, it should be remembered that the reviewer has a low threshold of patience for the entire psychiatric enterprise and also, being somewhat childlike himself, is not at all surprised that children can surprise you. Coles, a proclaimed grown-up, is unwaveringly astonished.

Now then, for some useful things either that are in the book or that you might be reminded of by the book:

The only children that Coles found who did not display ambivalence about government (hating it for doing something but still believing it was the heart of their own identification with their native land) were children in Poland. Those kids, an endearing bunch for sure, absolutely hated their government, regarding it as invading "scum" and, in one spirited instance, even wishing that the Polish people had a nuclear weapon of their own with which to atomize the government. (All other children, needless to say, expressed to Coles deep fears of nuclear weapons.) No other children, apparently, could make the clear distinction between country, or homeland, and state authority. Only those dear Polish children loved their country while hating their nation.

Most other kids, alas, in Coles's experience and in the observations of many others (my mother, for instance) truly believe that the government is the thing that holds everything together, makes life possible and worthwhile, endows citizens with national pride. Unlike my mother, however, Coles seems to believe the kids are on to a basic truth: "Nationalism...energizes the entire moral life of a child, his parents, his relatives—gives them all a structure on which they can hang a range of oughts, noughts, maybes, ifs." One child in a poor neighborhood summed it up: "The government is all we've got, like it or not."

My mother's notion, on the other hand, was that the nation is, at the very best, an evil necessary to keep the Russians at bay, while all the better things in life arise from inner inspiration, self-esteem, and hard work. (She probably should have seen a psychiatrist.)

Knowing that children resent attacks against *their* government, even while they might echo parental attacks against the politicians currently in power, should remind us all that in grown-up politics something of the same sort also may apply. Attacks against the national government, as an abstract thing, may not be as effective as attacks against the poltroons and knaves running it at any given moment.

But how, then, could a truly antinationalist politics ever be developed in this or any other country? Coles's book is a reminder of how far back in life one has to go to form or re-form fundamental attitudes about politics. As he puts it in the one phrase that I found brilliant and provocative in the entire book, "a political inclination has a 'developmental history." In other words, as my mother might put it, "as the twig is bent, so grows the tree." The political life of children becomes, very simply, the political life of a country.

To the extent that children are taught rote obedience and the virtues of sacrifice to the collective, then blind loyalty to *their national government* will, indeed, be "the only thing we have." Is there any possible subversion of this blind, totally political loyalty? Coles's book inadvertently suggests one: material well-being.

One of the young Cambodian refugees he interviewed had thrown off her native nationalism and discovered a sort of nonpolitical focus for her loyalties in America. She couldn't understand, Coles reports, how anyone "could live without a McDonald's nearby, or a supermarket or drugstore."

It reminded me that the youngsters you meet who seem obsessed with material things rather than the so-called higher things (highly publicized service to the downtrodden, duty to the flag, etc.) have something useful to offer history. If they lust throughout their lives for material things, rather than for power or for the glory of the nation, they might be part of a generation that forms a genuine antinationalist force. Perhaps many of today's so-called yuppies, preoccupied with material things, will bless us all by refraining from obsession with political power and may, instead, represent a significant dilution of that power.

Coles also observes that children constantly practice the most basic sorts of

politics in their jockeying for position, in sensing where the power lies in a family or a schoolyard and going with the winner, and in evaluating parents and other kids in terms of dependability, duplicity, and possible benefits. If, in the educational system, "politics" ever becomes a description simply of the ways in which people negotiate relationships with their neighbors—rather than a way to rule the neighbors or glorify the nation—that too would presage a truly antiauthoritarian, antinationalist force. But the fact that this collection of interviews shows how the worship, literally, of the state is vitally alive in so many children today, reminds us also of how very far we have to go before the individual takes precedence over the collective and before communities of assenting individuals take precedence over the coercive authority of the state.

The politics of children, we are usefully reminded, is, indeed, the root of politics, and of the warlike nationalism, of adults. Outside of that reminder, however, reading this book easily could be skipped and the time more usefully spent talking to your own kids.

Karl Hess, a former child and political speechwriter, is editor of the Libertarian Party News.

How to Spend a Trillion and Be Frustrated

By Bill Kauffman

Running in Place: Life Inside the Senate
By James A. Miller, New York: Simon & Schuster, 204 pages, $17.95

Some of the wisest, most perceptive criticism of the American form of government is found in the sadly neglected writings of the Anti-Federalists, that large but disorganized band of men who opposed the ratification of a new Constitution in 1787. Consider Maryland's Luther Martin, a drunk and a wastrel, given to rambling, besotted speeches to his fellow Constitutional Convention delegates. Martin, who feared that the Constitution granted the central government excessive powers, described the likely fate of the U.S. Senate: "If he [a senator] has a family, he will take his family with him to the place where the government shall be fixed, that will become his home, and there is every reason to expect, that his future views and prospects will centre in the favours and emoluments either of the general government, or of the government of that state where the seat of empire is established."

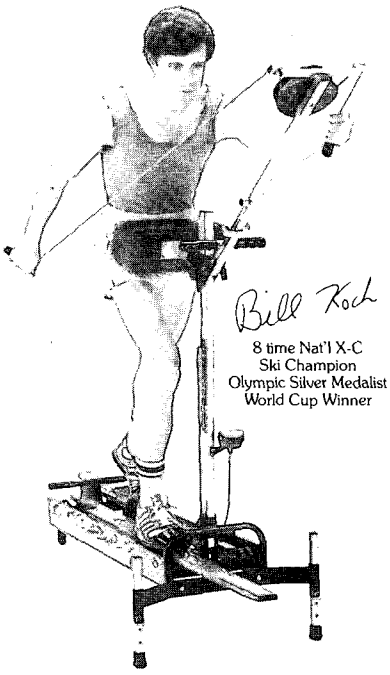
Martin's words would doubtless draw blank stares from today's senators and their camp followers, whose historical memories seldom stretch back beyond passage of the Budget and Impoundment Act of 1974. The modern Senate's sole nod to the Founding Fathers is the annual reading of Washington's Farewell Address by some bored freshman to a nearly empty chamber. The poor fellow and his colleagues then spend the next 364 days repudiating every bit of advice old George offered in his splendid valediction.

It's no surprise that James Miller is a former Senate staffer. For that same maddening disregard for history taints his *Running in Place*, billed as an insider's diary of a typical week's work in the world's greatest deliberative body.

Miller's vantage point is ideal: he served as a special assistant to ex-Senate Majority Leader Howard Baker. Though this locus of Senate action affords a relatively panoramic view of the institution, Miller concentrates on five senators and their staffs: Baker, Budget Committee chairman Pete Domenici (R-N.M.), former Bianca Jagger escort Chris Dodd (D-Conn.), resident wit Alan Simpson (R-Wyo.), and nonentity Frank Lautenberg (D-N.J.).

The form is descriptive, occasionally colorful, never pedantic. But Miller's message is clear. Through alternately tedious and illuminating recountings of budget disputes, publicity seeking, and personality clashes, Miller paints a Senate paralyzed by inaction, much to the frustration of senators whose job becomes an exercise in "running in place." (Frustrating, yes. But note that 17 of the 18 senators first elected to the body in 1980 are running for reelection in 1986. The other one is dead.)

Miller's villain appears to be the breakdown of what political scientist Donald Matthews once labeled the Senate's "folkways." No longer are new senators content to serve a silent apprenticeship, imbibing wisdom from the body's elder statesmen. The relentless glare of the media, combined with a series of majority leaders over the last 20 years unable or unwilling to disci-



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pline their troops, has produced a body of free-lancers who abuse the freedoms the Senate's lax rules provide them. (For instance, Senator Dodd forces the Senate into a rare secret session on Central America—a brazen ploy so contrary to the old folkways that it "would never have been allowed 20 years ago," complains Barry Goldwater.)

Miller is also displeased that the dilatory tactic of the filibuster, or threat thereof, has

There's so many Senate staff, scurrying about, seaching every nook and cranny of the policy universe for schemes to advance their boss's career.

come into its own over the last decade. Its finest current practitioner, Ohio Sen. Howard Metzenbaum (D), uses the threat of a filibuster at the end of every Senate session to prevent the more egregious pork-barrel bills from slipping through. The Senate establishment (and, I take it, Miller) hates Metzenbaum. Yet in demanding debate on these foolish give-away bills, Metzenbaum is transporting the Senate back to the character the Founders desired for it—"the source of a more deliberate, more knowledgeable, longer-run view of good public policy," in the words of the luminous congressional scholar Richard Fenno.

The strength of Miller's book is its emphasis on the enormous role that Senate staffs play in the governing of our nation. Since the first full-time clerks were hired in 1856, congressional staff size has increased exponentially—to 7,000 by 1960 and 18,000 today, a ratio of 33 Indians to every chief. Most of the Senate's important business occurs not on the floor but in its 15 committees, whose real work is done by a cadre of staffers. The committee staffs write the bills, compose the speeches, and orchestrate the hearings, often with minimal direction from senators. The groundwork thus laid, the Great Men show up; zap—they legislate; then down the hall they run, to another committee meeting or caucus or maybe just to catch 40 winks after a rough night.

Although Miller describes one staffer who "hatches his own ideas and tries to force them on Baker," factotums who work at cross-purposes from their boss seldom last long. The real problem with Senate staff isn't so much their independence; it's just that there's so *many* of them, scurrying about, searching every nook and cranny of the policy universe for schemes to advance their boss's career. The result is that a senator often tackles dozens of issues he knows nothing about, usually to the detriment of the liberties of the people.

Of course, being a Senate staffer is a heady job, the more so if one works for a powerful senator like Baker or Domenici. But the price of the ticket is steep. Staffers, notes Miller, quickly learn "to have no ideology at all, or to purge oneself of whatever ideology one does have." Living testaments to this political abnegation stride purposefully through this book, ideological eunuchs who've sold their manhood for the chance to be a powerful man's minion. It's a pathetic sight, really, to see grown men and women drawing their own sense of worth from their employers' stature. (Indeed, it's striking how many House staffers refer to their boss as "my member"—though perhaps we're treading here on psychosexual ground best left untrod.)

At all events, Miller offers no solutions to Senate gridlock, his presumed purpose being simply to sketch the problem. The tepid reforms he touches on—restricting the right to filibuster, cutting staff size—miss the forest for the trees. The Senate is "in crisis" (as the book's flap warns us) because its purview has expanded far beyond what its creators ever envisioned. Raising and spending $1 trillion a year, determining which interests shall profit from the ceaseless plunder of the taxman, advising the executive in the bloody and byzantine affairs of the American Empire—these are jobs quite beyond the capability of a republican institution that places a premium on the prerogatives of individual legislators.

Two alternatives to the status quo recommend themselves: either adopt the drastic reforms that have given the Soviet Central Committee its crisis-free reputation, or return the federal government to its handful of original functions. The latter, though preferable, may be impracticable. As Luther Martin understood two centuries ago, the natural tendency of legislators is to identify their interests with the state's interest; the legislator's power increases as the individual's liberty decreases.

One hopes that *Running in Place* is the first droplet in a spate of books marking next year's 200th anniversary of the Constitutional Convention. No doubt we're in for one hellacious celebration, with the most-clamant cheering coming from that group of men and women whose prospects center in the favors and emoluments of an omnipotent government. Maybe the rest of us, though, can step back from the parade and do some good hard thinking about the state of the political institutions bequeathed us by our forefathers. We can try to figure out just what went wrong; and we can determine how we might go about setting things right again.

Former Senate staffer Bill Kauffman is REASON's Washington editor.

Individualist Feminism Under Fire

By Joan Kennedy Taylor

A Lesser Life: The Myth of Women's Liberation in America
By Sylvia Ann Hewlett, New York: Morrow, 459 pages, $17.95

Social movements go in cycles, and the feminist movement is no exception. It began as a reaction to restrictive laws and customs and was associated with the abolitionist movement. But gradually, after the turn of the century, it became a battleground between forces advocating equality before the law (which social thinker F. A. Hayek has called "the only kind of equality conducive to liberty") and forces that wished to use the law to create "equality" for women by compensating for their inferior strength and clout.

With World War II and the postwar years, feminism more or less disappeared. But then in the late '60s and early '70s a new women's movement swung the pendulum again toward equality before the law, with the strong push to ratify the Equal Rights Amendment (ERA).

But now, if Sylvia Hewlett's book *A Lesser Life* and the positive reception it is getting are any indication (the author was a guest on *Face the Nation* this past Mother's Day), the pendulum is swinging in the other direction again. The force of Hewlett's

argumentation poses a challenge that those who disagree will have to answer.

Hewlett was assistant professor of economics at Barnard College from 1974 to 1981 and then became director of the Economic Policy Council, a private-sector "think tank," where she worked with the likes of Albert Shanker, president of the American Federation of Teachers, and Ray Marshall, secretary of labor from 1976 to 1980—both of whom provided enthusiastic jacket blurbs for the book. She is now, according to the jacket of her book, vice-president for economic studies at the United Nations Association. British born and raised, she came to work in this country convinced that it is the focal point for contemporary feminism and that a feminist is what she is.

But her experiences once she began having children and trying to combine family and work led her to question a great deal about the contemporary position of American women. This led in turn to her research for this book, interiewing "business leaders, journalists, government officials, and hundreds of working parents in five different countries."

In some ways *A Lesser Life* is an infuriating book—so much of it is good. It is well written. It has the historical facts right about the early history of the ERA and how it was opposed by Eleanor Roosevelt and the Women's Bureau of the Department on Labor on the grounds that women didn't need equality before the law, they needed special legislation (a New Deal) that an ERA would invalidate. It masterfully combines research and personal anecdote. It accurately describes many of the dilemmas that face women in today's world.

But then, understanding the issues and naming them, Hewlett comes down squarely on the side of "social feminism," European version. Her message is that only ever-expanding government programs can solve these problems. She concludes that, because of the lack of protective legislation in this country as compared to Europe, American women are less liberated than their European counterparts. Women's problems, she argues, are problems that women cannot solve for themselves, voluntarily, without the coercive intervention of government.

She calls it a "problem" of "consciousness raising" that it "tends to shift the burden for change away from society and toward the individual woman. It encourages women to look to themselves, or to that small group of women with whom they share consciousness, as the source of their 'liberation.' In short, consciousness raising is an approach that deemphasizes broad-based social action in favor of personal redemption....Because it shifts responsibility away from society and toward the individual, it tends to deemphasize political action in favor of highly personal transformation experiences." She adds later, "These self-help solutions to problems—even when they don't work—relieve the pressure on government to seek collective solutions to women's problems."

The problems the book describes are those of working mothers. At a time when marriage no longer provides women with economic security, the workplace offers little alternative security to working mothers. Only childless women are able take full advantage of the opportunities for high-powered careers that equal-rights feminists have helped to win. The rise in divorce has been accompanied by financial settlements meant

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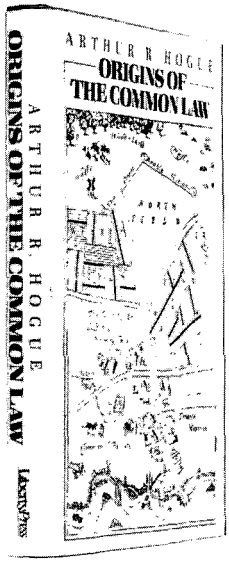

ORIGINS OF THE COMMON LAW

By Arthur R. Hogue

First published in 1966 by Indiana University Press Arthur R. Hogue's *Origins of the Common Law* looks at the deep medieval roots of our legal system during the early formative period of the common law. Between 1154 and 1307, from the reign of Henry II to that of Edward I, common law experienced a spectacular growth as a legal system enforced in the English Royal Courts. Paraphrasing Professor Hogue: in the form of writs, judicial decisions, treatises, royal ordinances, and parliamentary statutes, the common law, in large part the definition of established customs, emerged into explicit written form and formal procedure to order better such ordinary relationships among Englishmen as those between landlord and tenant, merchant and money lender, and buyer and seller.

In his final chapter, "From Medieval Law to Modern Law," Hogue concludes, "The rule of law, the development of law by means of judicial precedents, the use of the jury to determine the material facts of a case, and the definition of numerous causes of action—these form the principal and valuable legacy of the medieval law to the modern law." And one might add, to the growth of the concept of liberty as well.

This thoughtful, lucid account is a work of history, not a technical legal treatise, and should be of interest to the general reader and the specialist alike.

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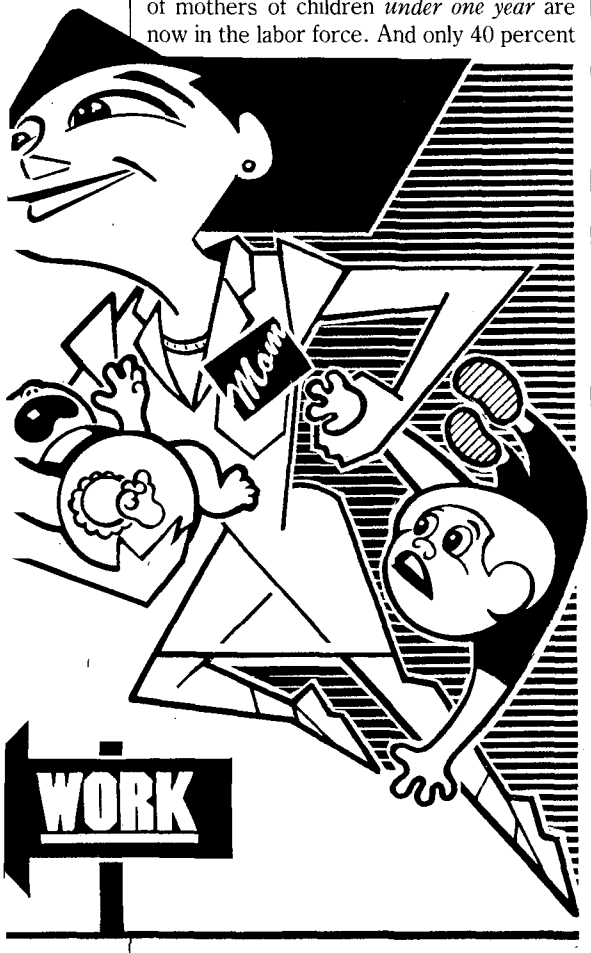
to be egalitarian but actually detrimental to women, so that more and more women need a paycheck. That paycheck, except for a very small percentage of women, is less than the average male worker's—there is a wage gap between men and women.

In the face of this situation, 48 percent of mothers of children *under one year* are now in the labor force. And only 40 percent



SAM McKAY

of these working mothers had any sort of maternity leave or job-back guarantee. They have uncertain child-care arrangements, and if they try to get flextime or part-time work while their children are little they usually lose job benefits. In Europe, on the other hand, "advanced democracies have instituted family-support systems such as paid maternity leaves, child allowances, subsidized day care, and free health services, all of which considerably ease the lives of working parents."

A large part of Hewlett's book examines why there is no national movement in favor of similar public-policy measures in this country. Hewlett's answer, in a nutshell, is the '50s. The '50s, she says, were so aberrant in the adoption of extreme "masculine" and "feminine" roles that they interrupted the move toward social feminism that might otherwise have surged here as it did in Europe.

Instead, the '50s gave rise to a cult of motherhood as a full-time occupation, which cult still keeps American public policy from solving women's problems and set the sexes and the generations against each other in the late '60s and early '70s. So no one—not businessmen, not business women, certainly not politicians—is interested in doing anything to make life easier for working mothers.

The people who should be interested, feminists, began their feminism either as young radicals who had learned to hate men through their contemptuous treatment in left-wing politics or as former housewives who felt bitter because they hadn't emulated men in the job market. Neither group was concerned about children. The fight over the ERA in the '70s developed another set of activist women: traditional women determined to hang on to the economic security of the marriage pattern of the '50s. But, says Hewlett, "neither the feminist movement nor the antifeminist movement has yet had much success in improving women's economic security."

In the absence of a national movement to secure legislation gaining special privileges for working mothers, the only hope that Hewlett sees to better their lot is pressure from trade unions in collective bargaining. It's ironic that this book, calling for *social* feminism as in "social democrat," is being perceived as a middle-of-the-road, even conservative, document. After all, it criticizes the National Organization for Women (NOW), and it takes the side of antifeminist Phyllis Schlafly in the ERA fight—while deploring Schlafly's negative stand on equal pay for work of comparable worth. The challenge of the book is that the problems it identifies are real and the "solutions" do exist in European countries.

Never mind that part of what is working in those European countries is a tradition of more stable marriage ("The divorce rate in the United States is now double that in Sweden, Britain, and Germany; triple that in France; and twenty times as high as in Italy"). Never mind that our deficits couldn't support the kind of investment that federally supported child care, to mention just one item on the list, would cost—either economically or politically. Never mind that mandated paid maternity leave could also negatively affect the employment patterns of women, as it would add enormously to the cost of employing women. And never mind that a great deal of research was done in the early '70s showing that laws purporting to "protect" women in the labor market actually discriminate against them: maximum-hour laws forbid overtime and hence inhibit promotions; laws against nightwork or dangerous occupations keep women from competing for high-paying jobs; maternity leaves become prohibitions on working for certain periods before or after pregnancy. Dr. Hewlett's picture of the problem has the ring of truth, and her solutions seem realistic.

Those who care both for the family and individual freedom have been warned. The ball is now in our court.

Joan Kennedy Taylor is a New York-based book editor.

The Undying Flame: Mariano Moreno of Buenos Aires, by Ellen Garwood, Washington, D.C.: American Studies Center, 227 pages, $15.00. Americans know far too little about Latin America. As a child, I remember reading about Simon Bolivar, the liberator, who led some of the colonies in revolt against Spain. But aside from Bolivar, how many of us have even heard the names of San Martin, O'Higgins, Belgrano, or Moreno?

This is the ignorance with which I opened *The Undying Flame*, Ellen Garwood's biography of Mariano Moreno, the architect of Argentina's revolution against Spain. What I found was the story of a genuine hero, an advocate of reason and liberty in an age when such principles were still considered heretical.

A lawyer, originally schooled by Franciscan monks (who smuggled in free-thought books from Europe despite the Inquisition), Moreno in 1809 was hired by Argentina's ranchers to present a brief to the colonial government arguing for free trade. At the time, only trade with Spain was permitted, and with the Napoleonic wars raging, the British navy was interdicting most Spanish vessels. As a result, the ranchers had virtually no market for their hides and tallow, yet the cost of their largely imported supplies was soaring.

Support for this mercantilist policy came from the local Spanish merchants, who were charging sky-high prices for a small volume of smuggled-in goods. But Moreno's *Representacion de los Hacendodos* made such a persuasive case for free trade (in part by appealing to the government's self-interest in higher tariff revenues from a much larger volume of trade) that the monopoly was overturned, with highly beneficial results.

Much of Moreno's inspiration for the *Representacion* came from Adam Smith's *Wealth of Nations*, a Spanish translation of which had been given to him by his friend, Manuel Belgrano—later a fellow revolution-

the book case

ary hero. Also influential in shaping Moreno's ideas were the writings of Rousseau, Paine, and Jefferson. In the Buenos Aires *Gaceta*, the newspaper he founded in 1810, Moreno reprinted portions of Jefferson's *Notes on Virginia*.

From these thinkers Moreno developed his philosophy of government. Sovereignty, he concluded, rests ultimately in the people, not in kings. When Ferdinand VII of Spain was captured by Napoleon's forces, Moreno saw his opportunity to undermine the concept of obedience to the crown. As a member of the Junta of Government which took over from the Spanish Viceroy in 1810, he expounded his views in a series of articles in the *Gaceta*. The displacement of Ferdinand, he argued, meant that the authority which had been granted him by the people no longer applied; hence, they were free to devise their own form of government. It should rely on a written constitution, with checks and balances on the use of power, he explained, rather than naively trusting in the goodness of various leaders.

Needless to say, in an age when monarchy was still the dominant order of things, blessed by the Church, these views were highly controversial. Although Moreno's influence was profound, as the principal strategist and expounder of the revolution, opposition forces remained strong even within the junta membership. Moreno resigned when the balance of forces turned against convening a constitutional convention, as he had long been urging. He was sent on a mission to London—actually into exile—and fell sick and died on the voyage, at the age of 33. Had he lived, perhaps the name *Moreno* would today be as well known in North America as that of Bolivar.

Garwood's well-researched biography illustrates once again the power of ideas to change the world, irrespective of borders. The ideas of (British) Adam Smith, (French) Jean-Jacques Rousseau, and (American) Thomas Jefferson inspired this brilliant young lawyer to bring freedom to his Argentinian countrymen.

—Robert W. Poole, Jr.

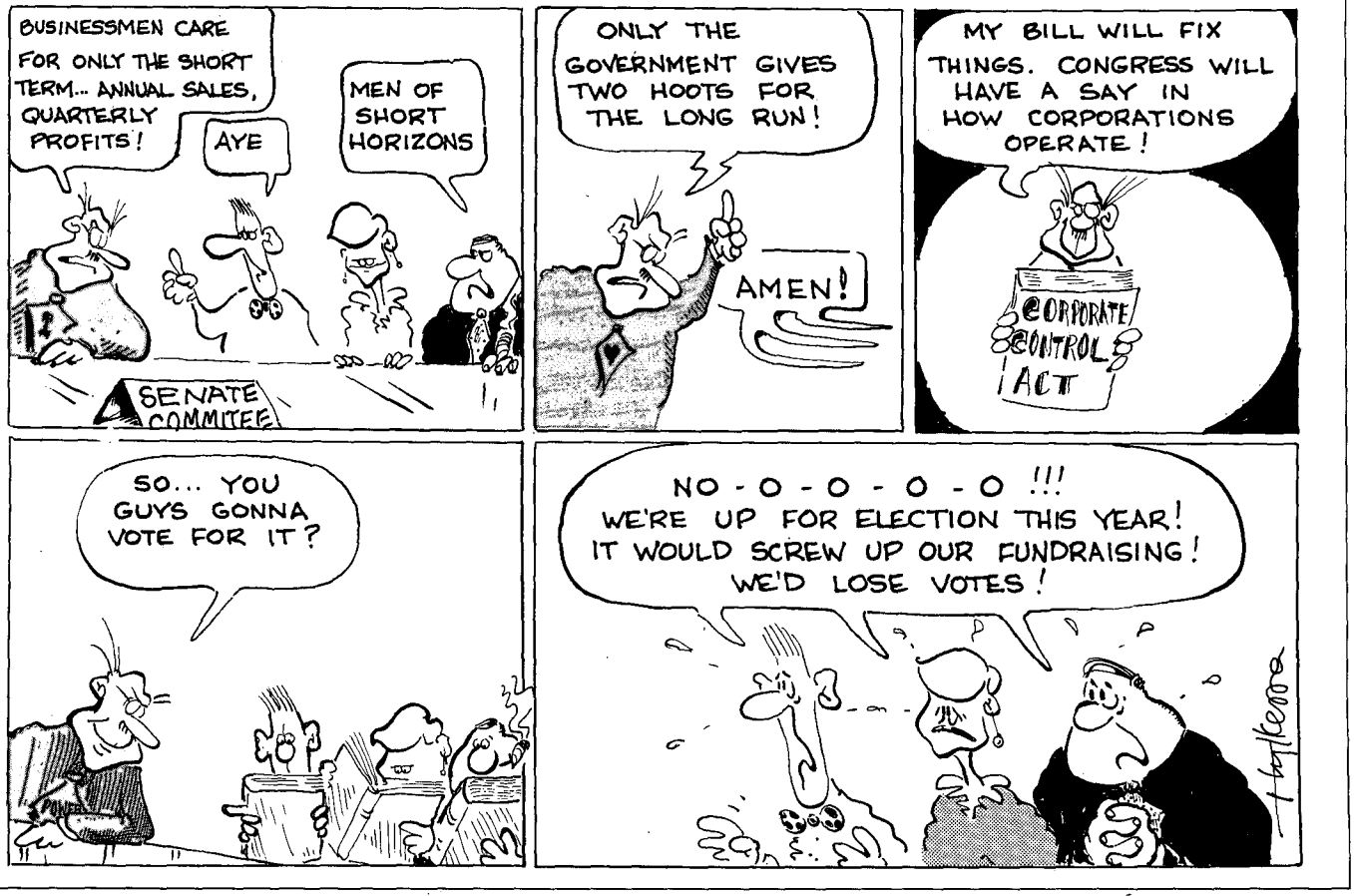
quotable quotes

■ *Had America been a monolith...the defense of it would never have become a spiritual goal of modern humankind. Determination to stand for the United States is determination to stand for a new liberal civilization with all its multfariousness, with its "left wing" and "right wing," with its ideological and aesthetic kaleidoscope, with its hedonism and generosity, ...with its religious ecumenism and commercial paganism, with its bankers and tramps,...preachers and muscle builders, homosexuals and wrestlers, palm readers and mathematicians, street musicians, punks, Soviet dissidents, vogue models, Chinese cooks, go-go girls and even with its real-estate agents—all this enchanting marketplace!*

—Vassily Aksyonov,
Los Angeles Times Magazine,
June 29, 1986

rudebarbs

Randall K. Hylkema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AYE
MEN OF SHORT HORIZONS
SENATE COMMITEE
ONLY THE GOVERNMENT GIVES TWO HOOTS FOR THE LONG RUN!
AMEN!
MY BILL WILL FIX THINGS. CONGRESS WILL HAVE A SAY IN HOW CORPORATIONS OPERATE!
CORPORATE CONTROL ACT
SO... YOU GUYS GONNA VOTE FOR IT?
NO-O-O-O-O !!! WE'RE UP FOR ELECTION THIS YEAR! IT WOULD SCREW UP OUR FUNDRAISING! WE'D LOSE VOTES!

viewpoint

By Jeff Riggenbach

The War on Illegals Hits Home

During the last week of July, I was arrested in California, handcuffed, strip-searched, photographed, fingerprinted, and jailed for more than seven hours by the U.S. Border Patrol. My wife was subjected to all the same indignities. Our seven-year-old son was arrested, photographed, and jailed right along with us, though he was spared the handcuffs, the strip-search, and the fingerprinting. Our car was seized, and we were told we would not be allowed to reclaim it.

What had we done to bring this down on ourselves? We had picked up our 25-year old Mexican housekeeper, Ana, in San Diego and driven north on Interstate Highway 5 toward our home in Orange, California, a suburban community about 35 miles southeast of downtown Los Angeles. Ana had spent the weekend in Mexico with her fiance and had reentered the United States that morning. When she reached San Diego, she had called to let us know where she was, and we had driven the 85 miles down to give her a ride home.

What we didn't reckon with was "Checkpoint Charlie," the permanent roadblock the Immigration and Naturalization Service operates on I-5 about 100 miles north of the border. The official reason for having a Border Patrol checkpoint so far north of the border is to catch Mexican nationals who are trying to violate the terms of their tourist visas. Such visas entitle the bearer to visit the United States, but only within 100 miles of the border. Many Mexicans obtain such visas, however, and travel beyond the 100-mile limit, whereupon they disappear into the Latino areas of cities like Los Angeles, where finding them is like finding a needle in a haystack.

Ana possessed such a tourist visa, but it had been canceled the day before, when she had attempted to enter the United States through Nogales (south of Tucson, Arizona). The Border Patrol had searched her purse and found an airline ticket that would have taken her from Tucson to Orange County's John Wayne Airport about 10 miles from our home. Now, therefore, she was an "illegal alien." And we were guilty of "transporting" her and of "aiding and abetting" her flight from the border, which she had illegally crossed.

We had not known that it was illegal to

GWYN STRAMLER

"transport" an illegal alien—that is, to give an undocumented person a ride from one place in the United States to another. Since our arrest, we've been able to find only one person who did know it was illegal before hearing our story.

In the Los Angeles area, illegal aliens make up a substantial part of the adult work force. In Orange County, according the the *Los Angeles Times*, one adult worker in 10 is an illegal alien. And every day of the week, Monday through Friday, the contractors who employ those aliens on construction sites, in orchards, and in farmers' fields pick them up on street corners to transport them to their jobs. They are never arrested for doing so. But we were.

The question, of course, is why *anyone* should be arrested for helping an immigrant enjoy a better life. Ana regarded the salary she received for working in our home and caring for our children as more than generous. She in no way felt exploited by us. In fact, she regarded us as her benefactors. And we regarded her as a member of our family. She had a particularly close and loving relationship with our seven-year-old son, who was deeply hurt when she was taken from us.

We considered the work Ana did in return for her salary completely satisfactory. Both parties to the bargain were happy with what they got out of it. What business had government—or anyone else—to interfere with our entirely voluntary transaction? Why is our government using violence to prevent capitalist acts among consenting adults? Whose rights did we violate? Whom did we damage?

Those who want to see our immigration laws better enforced—those who speak of the need to "protect the integrity of our borders"—often accuse illegal immigrants of entering this country in order to collect welfare. But Ana—and all the other illegals I have known over the years—had done no such thing. On the contrary, she had come here at some expense and not inconsiderable danger to herself in order to earn her living and help support the members of her family in Mexico. The work she did was work no native American would do at a price her employers could afford to pay. Whose rights did she violate? Whom did she damage?

In the end, she was deported and warned not to come back. (She was back, however, within three weeks—back in this country, but not back in our home, where we all fear the Border Patrol might come looking for her.)

We were charged with one felony count and one misdemeanor count of violating U.S. immigration laws. But our attorney talked the federal prosecutor into offering us a "deferred prosecution." If we maintain a clean record for one year—if we are neither arrested nor charged with any violations of local, state, or federal laws for that length of time—the charges against us will be dropped and the $1,000 bond we were required to post will be returned to us. Meanwhile, we have lost a close friend and valued employee, we have lost several thousand dollars in legal fees and other expenses, our young son has been needlessly traumatized, and we have been brutalized by government thugs.

Your income taxes at work.

Contributing editor Jeff Riggenbach is an editorial writer and columnist for the Orange County Register *and a regular guest columnist for* USA Today.

The world's most unusual new country: inspiration for the most unique precious metal coin ever minted

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The Republic of Minerva

On January 19, 1972 the North and South Minerva Reefs (situated 400 miles south of Fiji, and previously unclaimed by any nation) were occupied and claimed under international law by the founders of the State of Minerva. These men immediately commenced a bold, sophisticated plan of landfill and seawall development to literally create from once barren reefs the land needed for a city-state of 30,000 inhabitants.

The Republic of Minerva was dedicated to the principles of Capitalism and Free-Enterprise. Its government was limited to the protection of its citizens against force or fraud. Other world governments were officially notified of the existence of the newly created island and its government. Landfill operations were proceeding apace, and recognition had been received from the first of the world's countries when disaster struck.

On June 21, 1972 Minerva was forcibly invaded by the Kingdom of Tonga, its nearest neighbor, 260 miles distant. Unable to effectively defend the island, its government was forced into exile pending resolution of the conflict. The possibility remains that the Republic of Minerva may yet reclaim its territory and if that should happen, the Minerva coin could multiply in value many times over.

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Radar warning breakthrough #4 is now available from the same engineers who made #1, #2, and #3

Bad news for radar detectors. The FCC (Federal Communications Commission) has cleared the Rashid VRSS for operation on K band.

What's a Rashid VRSS?

The Rashid VRSS is a collision warning system using a radar beam to scan the vehicles path, much as a blind person uses a cane. It may reduce accidents, which is very good news.*

Now for the bad news

Unfortunately, the Rashid transmits on K band, which is one of the two frequencies assigned to traffic radar. Rashid speaks a radar detector's language, you might say, and it can set off detectors over a mile away.

Faced with this problem, we could hope Rashid installations will be few. Or we could invent a solution.

Opportunity knocking

Actually, the choice was easier than it sounds, because our engineers are in the habit of inventing remarkable solutions. In fact, in the history of radar detection, only three advancements have qualified as genuine breakthroughs, and all three came from our engineers.

Back in 1978, they were first to adapt dual-band superheterodyne technology to the problem of traffic radar. The result was ESCORT, now legendary for its performance.

In 1983, when a deluge of cheap imported detectors was found to be transmitting on radar frequency, our engineers came through again, this time with ST/O/P™, a sophisticated circuit that could weed out these phony signals before they triggered an alarm.

Then in 1984, using SMDs (Surface Mounted Devices), micro-electronics originally intended for satellites, these same engineers designed the smallest detector ever. The result was PASSPORT, renowned for its convenience.

*For more information on Rashid VRSS collision warning system, see *Popular Science*, January 1986.

They said it couldn't be done

Now we're introducing breakthrough number four. In their cleverest innovation yet, our engineers have found a way to distinguish Rashid from all other K band signals. It's the electronic equivalent of finding the needle in a haystack. The AFR™ (Alternating Frequency Rejection) circuit isolates and neutralizes all Rashid signals, yet leaves the radar detection capability undiminished for your protection.

No waiting for the good stuff

When testing proved that AFR was 100 percent effective, we immediately incorporated it into ESCORT and PASSPORT. Our policy is to make running changes—not model changes—whenever a refinement is ready. That way our customers always get the latest science.

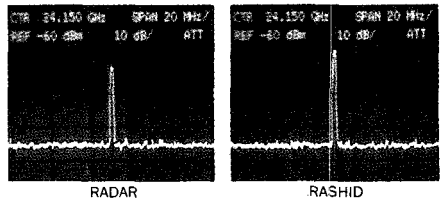

Figure 1: A digital spectrum analyzer scanning the entire width of K band can't see the difference between radar and Rashid.

AFR is fully automatic. There are no extra switches or lights. Nothing for you to bother about. The Rashid problem simply goes away.

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Cincinnati Microwave is committed to constant advancement in radar warning technology. But we don't believe in planned obsolescence. Therefore, we are working out a plan to offer upgrades for most pre-AFR models (PASSPORTs under number 550,000, and ESCORTs from 200,000 through 1,199,999). Since non-AFR units will require extensive modifications, new procedures and facilities are being developed to ensure a quality conversion. For details and costs of this retrofitting program, see our ad in the January issue of this magazine.